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ANNUAL STATEMENT

FOR THE YEAR ENDING DECEMBER 31, 2009

OF THE CONDITION AND AFFAIRS OF THE

Group Hospitalization and Medical Services, Inc.

NAIC Group Code 00380 (Current Period), 00380 (Prior Period) NAIC Company Code 53007 Employer's ID Number 53-0078070

Organized under the Laws of District of Columbia, State of Domicile or Port of Entry District of Columbia

Country of Domicile United States

Licensed as business type: Life, Accident & Health [ ] Property/Casualty [ ] Hospital, Medical & Dental Service or Indemnity [X]
Dental Service Corporation [ ] Vision Service Corporation [ ] Health Maintenance Organization [ ]
Other [ ] Is HMO, Federally Qualified? Yes [ ] No [ ]

Incorporated/Organized 08/11/1939 Commenced Business 03/15/1934

Statutory Home Office 840 First Street NE (Street and Number), Washington, DC 20065 (City, State and Zip Code)

Main Administrative Office 10455 Mill Run Circle (Street and Number)
Owings Mills, MD 21117 (City, State and Zip Code) 410-581-3000 (Area Code) (Telephone Number)

Mail Address 10455 Mill Run Circle (Street and Number or P.O. Box), Owings Mills, MD 21117 (City, State and Zip Code)

Primary Location of Books and Records 10455 Mill Run Circle (Street and Number)
Owings Mills, MD 21117 (City, State and Zip Code), 410-998-7011 (Area Code) (Telephone Number) (Extension)

Internet Web Site Address www.carefirst.com

Statutory Statement Contact William Vincent Stack (Name), 410-998-7011 (Area Code) (Telephone Number) (Extension)
bill.stack@carefirst.com (E-Mail Address) 410-998-6850 (Fax Number)

OFFICERS

Name	Title	Name	Title
Chester Emerson Burrell	President and Chief Executive Officer	John Anthony Picciotto	Corp.Secretary, Exec. VP & Gen. Counsel
Jeanne Ann Kennedy	Corp. Treasurer & VP		

OTHER OFFICERS

Glenn Rothman	SVP, Shared Services	David Donald Wolf	EVP, Medical Systems
Gregory Mark Chaney	EVP, CFO	Gregory Allen Devou	EVP, Chief Mktg Officer
Michael Bruce Edwards	SVP, Networks Mgmt	Gwendolyn Denise Skillern	SVP, General Auditor
Fred Adrian Walton Plumb #	SVP, ASU-FEP	Michael John Felber	SVP, Sales
Sharon Jean Vecchioni	EVP, Chief of Staff	Rita Ann Costello	SVP, Strategic Marketing
Maria Harris Tildon	SVP, Public Policy	Jon Paul Shematek, M.D.	SVP, Chief Medical Officer
Dennis Allen Cupido	SVP, ASU-Large Groups	Kenny Waitem Kan	SVP, Chief Actuary
Andrew Francis Sullivan #	SVP, ASU-Consumer Direct	Kevin Charles O'Neill #	SVP, Strategic Managed Care Initiatives
Steven Jon Margolis #	SVP, ASU-Small & Medium Groups	Alok Gupta	SVP, CIO

DIRECTORS OR TRUSTEES

Elizabeth Oliver-Farrow	James Wallace	Linda Washington Cropp	Larry Donovan Bailey
Carlos Mario Rodriquez	Robert Marcellus Willis	Nathaniel Thomas Connally	Faye Ford Fields
Natalie Olivia Ludaway	Robert Lee Sloan	Ralph John Rohner	

State of ....
County of .... ss

The officers of this reporting entity, being duly sworn, each depose and say that they are the described officers of said reporting entity, and that on the reporting period stated above, all of the herein described assets were the absolute property of the said reporting entity, free and clear from any liens or claims thereon, except as herein stated, and that this statement, together with related exhibits, schedules and explanations therein contained, annexed or referred to, is a full and true statement of all the assets and liabilities and of the condition and affairs of the said reporting entity as of the reporting period stated above, and of its income and deductions therefrom for the period ended, and have been completed in accordance with the NAIC *Annual Statement Instructions* and *Accounting Practices* and *Procedures* manual except to the extent that: (1) state law may differ; or, (2) that state rules or regulations require differences in reporting not related to accounting practices and procedures, according to the best of their information, knowledge and belief, respectively. Furthermore, the scope of this attestation by the described officers also includes the related corresponding electronic filing with the NAIC, when required, that is an exact copy (except for formatting differences due to electronic filing) of the enclosed statement. The electronic filing may be requested by various regulators in lieu of or in addition to the enclosed statement.

Chester Emerson Burrell	John Anthony Picciotto	Jeanne Ann Kennedy
President and Chief Executive Officer	Corp.Secretary, Exec. VP & Gen. Counsel	Corp. Treasurer & VP

Subscribed and sworn to before me this
______ day of ______,

____

a. Is this an original filing? Yes [X] No [ ]
b. If no:
1. State the amendment number 0
2. Date filed
3. Number of pages attached

ASSETS

	Current Year 1 Assets	2 Nonadmitted Assets	3 Net Admitted Assets (Cols. 1 - 2)	Prior Year 4 Net Admitted Assets
1. Bonds (Schedule D)	709,120,314		709,120,314	611,460,463
2. Stocks (Schedule D):				
2.1 Preferred stocks	4,626,208		4,626,208	5,385,403
2.2 Common stocks	266,642,938		266,642,938	283,802,984
3. Mortgage loans on real estate (Schedule B):				
3.1 First liens			0	0
3.2 Other than first liens			0	0
4. Real estate (Schedule A):				
4.1 Properties occupied by the company (less $ encumbrances)			0	0
4.2 Properties held for the production of income (less $ encumbrances)			0	0
4.3 Properties held for sale (less $ encumbrances)			0	0
5. Cash ($ (83,318,684) , Schedule E-Part 1), cash equivalents ($ 0 , Schedule E-Part 2) and short-term investments ($ 78,403,032 , Schedule DA)	(4,915,652)		(4,915,652)	22,184,796
6. Contract loans (including $ premium notes)			0	0
7. Other invested assets (Schedule BA)	10,504,432	166,667	10,337,765	506,034
8. Receivables for securities			0	0
9. Aggregate write-ins for invested assets	0	0	0	0
10. Subtotals, cash and invested assets (Lines 1 to 9)	985,978,240	166,667	985,811,573	923,339,680
11. Title plants less $ charged off (for Title insurers only)			0	0
12. Investment income due and accrued	6,338,681		6,338,681	5,106,928
13. Premiums and considerations:				
13.1 Uncollected premiums and agents' balances in the course of collection	236,158,314	2,521,514	233,636,800	230,904,426
13.2 Deferred premiums, agents' balances and installments booked but deferred and not yet due (including $ earned but unbilled premium)			0	0
13.3 Accrued retrospective premiums			0	0
14. Reinsurance:				
14.1 Amounts recoverable from reinsurers	24,725,173		24,725,173	26,363,324
14.2 Funds held by or deposited with reinsured companies			0	0
14.3 Other amounts receivable under reinsurance contracts	835,899		835,899	636,577
15. Amounts receivable relating to uninsured plans	42,786,681	1,917,054	40,869,627	47,679,636
16.1 Current federal and foreign income tax recoverable and interest thereon	8,257,680		8,257,680	13,275,013
16.2 Net deferred tax asset	40,890,024	23,563,646	17,326,378	8,895,120
17. Guaranty funds receivable or on deposit			0	0
18. Electronic data processing equipment and software	93,370,439	91,500,453	1,869,986	1,452,593
19. Furniture and equipment, including health care delivery assets ($)	7,019,802	7,019,802	0	0
20. Net adjustment in assets and liabilities due to foreign exchange rates			0	0
21. Receivables from parent, subsidiaries and affiliates	4,559,156		4,559,156	8,896,000
22. Health care ($ 54,723,142) and other amounts receivable	565,423,291	4,514,303	560,908,988	504,030,061
23. Aggregate write-ins for other than invested assets	79,441,410	77,027,391	2,414,019	2,355,686
24. Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Lines 10 to 23)	2,095,784,790	208,230,830	1,887,553,960	1,772,935,044
25. From Separate Accounts, Segregated Accounts and Protected Cell Accounts			0	0
26. Total (Lines 24 and 25)	2,095,784,790	208,230,830	1,887,553,960	1,772,935,044
DETAILS OF WRITE-INS				
0901.			0	
0902.			0	
0903.			0	
0998. Summary of remaining write-ins for Line 9 from overflow page	0	0	0	0
0999. Totals (Lines 0901 through 0903 plus 0998) (Line 9 above)	0	0	0	0
2301. Other Assets	2,414,019		2,414,019	2,355,686
2302. Other Assets Non-Admitted	23,947,171	23,947,171	0	0
2303. Pension	53,080,220	53,080,220	0	
2398. Summary of remaining write-ins for Line 23 from overflow page	0	0	0	0
2399. Totals (Lines 2301 through 2303 plus 2398) (Line 23 above)	79,441,410	77,027,391	2,414,019	2,355,686

LIABILITIES, CAPITAL AND SURPLUS

	Current Year			Prior Year
	1 Covered	2 Uncovered	3 Total	4 Total
1. Claims unpaid (less $ 28,535,002 reinsurance ceded)	252,981,956	8,826	252,990,782	271,596,790
2. Accrued medical incentive pool and bonus amounts			0	0
3. Unpaid claims adjustment expenses	10,603,630	370	10,604,000	10,120,800
4. Aggregate health policy reserves	506,185,845		506,185,845	455,674,687
5. Aggregate life policy reserves			0	0
6. Property/casualty unearned premium reserves			0	0
7. Aggregate health claim reserves			0	0
8. Premiums received in advance	65,643,239		65,643,239	73,389,418
9. General expenses due or accrued	103,086,984		103,086,984	107,065,396
10.1 Current federal and foreign income tax payable and interest thereon (including $ on realized capital gains (losses))			0	0
10.2 Net deferred tax liability			0	0
11. Ceded reinsurance premiums payable	49,526,217		49,526,217	53,726,412
12. Amounts withheld or retained for the account of others	55,780,751		55,780,751	64,105,435
13. Remittances and items not allocated	9,692,451		9,692,451	5,187,502
14. Borrowed money (including $ current) and interest thereon $ (including $ current)			0	0
15. Amounts due to parent, subsidiaries and affiliates	38,830,160		38,830,160	12,103,349
16. Payable for securities			0	0
17. Funds held under reinsurance treaties (with $ authorized reinsurers and $ unauthorized reinsurers)			0	0
18. Reinsurance in unauthorized companies			0	0
19. Net adjustments in assets and liabilities due to foreign exchange rates			0	0
20. Liability for amounts held under uninsured plans	25,522,569		25,522,569	24,742,235
21. Aggregate write-ins for other liabilities (including $ 758,080 current)	8,232,547	0	8,232,547	8,443,312
22 Total liabilities (Lines 1 to 21)	1,126,086,349	9,196	1,126,095,545	1,086,155,336
23. Aggregate write-ins for special surplus funds	XXX	XXX	0	0
24. Common capital stock	XXX	XXX		0
25 Preferred capital stock	XXX	XXX		0
26. Gross paid in and contributed surplus	XXX	XXX		0
27. Surplus notes	XXX	XXX		0
28. Aggregate write-ins for other than special surplus funds	XXX	XXX	0	0
29. Unassigned funds (surplus)	XXX	XXX	761,458,437	686,779,718
30. Less treasury stock, at cost:				
30.1 shares common (value included in Line 24 $)	XXX	XXX		0
30.2 shares preferred (value included in Line 25 $)	XXX	XXX		0
31. Total capital and surplus (Lines 23 to 29 minus Line 30)	XXX	XXX	761,458,437	686,779,718
32. Total liabilities, capital and surplus (Lines 22 and 31)	XXX	XXX	1,887,553,982	1,772,935,054
DETAILS OF WRITE-INS				
2101. Amounts Withheld for Escheatment	7,474,467		7,474,467	7,906,880
2102. Reinsurance Payable	758,080		758,080	536,432
2103.			0	
2198. Summary of remaining write-ins for Line 21 from overflow page	0	0	0	0
2199. Totals (Lines 2101 through 2103 plus 2198) (Line 21 above)	8,232,547	0	8,232,547	8,443,312
2301.	XXX	XXX		
2302.	XXX	XXX		
2303.	XXX	XXX		
2398. Summary of remaining write-ins for Line 23 from overflow page	XXX	XXX	0	0
2399. Totals (Lines 2301 through 2303 plus 2398) (Line 23 above)	XXX	XXX	0	0
2801.	XXX	XXX		
2802.	XXX	XXX		
2803.	XXX	XXX		
2898. Summary of remaining write-ins for Line 28 from overflow page	XXX	XXX	0	0
2899. Totals (Lines 2801 through 2803 plus 2898) (Line 28 above)	XXX	XXX	0	0

STATEMENT OF REVENUE AND EXPENSES

	Current Year		Prior Year
	1 Uncovered	2 Total	3 Total
1. Member Months	XXX	10,297,022	10,975,857
2. Net premium income (including $ non-health premium income)	XXX	2,927,358,276	2,815,214,149
3. Change in unearned premium reserves and reserve for rate credits	XXX	(50,511,159)	(71,218,678)
4. Fee-for-service (net of $ medical expenses)	XXX		0
5. Risk revenue	XXX		0
6. Aggregate write-ins for other health care related revenues	XXX	14,020,781	13,515,534
7. Aggregate write-ins for other non-health revenues	XXX	0	0
8. Total revenues (Lines 2 to 7)	XXX	2,890,867,898	2,757,511,005
Hospital and Medical:			
9. Hospital/medical benefits	88,119	1,830,129,882	1,757,032,209
10. Other professional services		61,623,633	60,309,125
11. Outside referrals			0
12. Emergency room and out-of-area	11,434	271,271,537	251,354,756
13. Prescription drugs		690,420,830	667,466,588
14. Aggregate write-ins for other hospital and medical	0	0	0
15. Incentive pool, withhold adjustments and bonus amounts			0
16. Subtotal (Lines 9 to 15)	99,553	2,853,445,882	2,736,162,678
Less:			
17. Net reinsurance recoveries		277,000,178	257,634,048
18. Total hospital and medical (Lines 16 minus 17)	99,553	2,576,445,704	2,478,528,630
19. Non-health claims (net)			0
20. Claims adjustment expenses, including $ 18,674,877 cost containment expenses		97,283,480	85,485,704
21. General administrative expenses		218,271,245	183,980,707
22. Increase in reserves for life and accident and health contracts (including $ increase in reserves for life only)		0	0
23. Total underwriting deductions (Lines 18 through 22)	99,553	2,892,000,429	2,747,995,041
24. Net underwriting gain or (loss) (Lines 8 minus 23)	XXX	(1,132,531)	9,515,964
25. Net investment income earned (Exhibit of Net Investment Income, Line 17)		33,411,421	42,338,600
26. Net realized capital gains (losses) less capital gains tax of $ 2,760,369		11,041,476	(18,019,830)
27. Net investment gains (losses) (Lines 25 plus 26)	0	44,452,897	24,318,770
28. Net gain or (loss) from agents' or premium balances charged off [(amount recovered $) (amount charged off $)]			0
29. Aggregate write-ins for other income or expenses	0	496,606	(3,237)
30. Net income or (loss) after capital gains tax and before all other federal income taxes (Lines 24 plus 27 plus 28 plus 29)	XXX	43,816,972	33,831,497
31. Federal and foreign income taxes incurred	XXX	(984,481)	7,571,329
32. Net income (loss) (Lines 30 minus 31)	XXX	44,801,453	26,260,168
DETAILS OF WRITE-INS			
0601. FEP Performance Incentive	XXX	13,960,000	13,401,000
0602. Trigon network fee - Med D	XXX	60,781	114,534
0603.	XXX		
0698. Summary of remaining write-ins for Line 6 from overflow page	XXX	0	0
0699. Totals (Lines 0601 through 0603 plus 0698) (Line 6 above)	XXX	14,020,781	13,515,534
0701.	XXX		
0702.	XXX		
0703.	XXX		
0798. Summary of remaining write-ins for Line 7 from overflow page	XXX	0	0
0799. Totals (Lines 0701 through 0703 plus 0798) (Line 7 above)	XXX	0	0
1401.			
1402.			
1403.			
1498. Summary of remaining write-ins for Line 14 from overflow page	0	0	0
1499. Totals (Lines 1401 through 1403 plus 1498) (Line 14 above)	0	0	0
2901. Miscellaneous		510,106	(3,237)
2902. Regulatory fines and fees		(13,500)	
2903.			
2998. Summary of remaining write-ins for Line 29 from overflow page	0	0	0
2999. Totals (Lines 2901 through 2903 plus 2998) (Line 29 above)	0	496,606	(3,237)

STATEMENT OF REVENUE AND EXPENSES (Continued)

	1 Current Year	2 Prior Year
CAPITAL & SURPLUS ACCOUNT		
33. Capital and surplus prior reporting year	686,779,717	753,558,919
34. Net income or (loss) from Line 32	44,801,453	26,260,168
35. Change in valuation basis of aggregate policy and claim reserves		0
36. Change in net unrealized capital gains (losses) less capital gains tax of $ 5,263,553	36,072,553	(10,492,177)
37. Change in net unrealized foreign exchange capital gain or (loss)		(373,294)
38. Change in net deferred income tax	(98,906,990)	126,262,466
39. Change in nonadmitted assets	73,130,315	(186,120,834)
40. Change in unauthorized reinsurance	0	0
41. Change in treasury stock	0	0
42. Change in surplus notes	0	0
43. Cumulative effect of changes in accounting principles	1,633,801	0
44. Capital Changes:		
44.1 Paid in	0	0
44.2 Transferred from surplus (Stock Dividend)		0
44.3 Transferred to surplus		0
45. Surplus adjustments:		
45.1 Paid in	0	0
45.2 Transferred to capital (Stock Dividend)	0	0
45.3 Transferred from capital		0
46. Dividends to stockholders		0
47. Aggregate write-ins for gains or (losses) in surplus	17,947,588	(22,315,531)
48. Net change in capital & surplus (Lines 34 to 47)	74,678,720	(66,779,202)
49. Capital and surplus end of reporting period (Line 33 plus 48)	761,458,437	686,779,717
DETAILS OF WRITE-INS		
4701. SBP minority interest prior year		636
4702. Change in accumulated other - pension	15,952,466	(22,316,167)
4703. Correction of an accounting error	1,995,122	0
4798. Summary of remaining write-ins for Line 47 from overflow page	0	0
4799. Totals (Lines 4701 through 4703 plus 4798) (Line 47 above)	17,947,588	(22,315,531)

CASH FLOW

Cash from Operations	1 Current Year	2 Prior Year
1. Premiums collected net of reinsurance	2,866,547,000	2,802,525,818
2. Net investment income	31,679,605	43,753,586
3. Miscellaneous income	13,960,000	13,515,534
4. Total (Lines 1 through 3)	2,912,186,605	2,859,794,938
5. Benefit and loss related payments	2,599,578,000	2,537,866,704
6. Net transfers to Separate Accounts, Segregated Accounts and Protected Cell Accounts		0
7. Commissions, expenses paid and aggregate write-ins for deductions	284,718,000	289,267,152
8. Dividends paid to policyholders		0
9. Federal and foreign income taxes paid (recovered) net of $ 2,760,369 tax on capital gains (losses)	(3,241,000)	11,044,044
10. Total (Lines 5 through 9)	2,881,055,000	2,838,177,900
11. Net cash from operations (Line 4 minus Line 10)	31,131,605	21,617,038
Cash from Investments		
12. Proceeds from investments sold, matured or repaid:		
12.1 Bonds	883,118,287	1,114,739,188
12.2 Stocks	128,284,186	67,529,066
12.3 Mortgage loans	0	0
12.4 Real estate	0	0
12.5 Other invested assets	0	0
12.6 Net gains or (losses) on cash, cash equivalents and short-term investments	(135)	0
12.7 Miscellaneous proceeds		0
12.8 Total investment proceeds (Lines 12.1 to 12.7)	1,011,402,338	1,182,268,254
13. Cost of investments acquired (long-term only):		
13.1 Bonds	975,468,094	1,052,069,860
13.2 Stocks	57,851,998	115,725,614
13.3 Mortgage loans	0	0
13.4 Real estate	0	0
13.5 Other invested assets	10,383,380	506,034
13.6 Miscellaneous applications		0
13.7 Total investments acquired (Lines 13.1 to 13.6)	1,043,703,472	1,168,301,508
14. Net increase (decrease) in contract loans and premium notes	0	0
15. Net cash from investments (Line 12.8 minus Line 13.7 and Line 14)	(32,301,134)	13,966,746
Cash from Financing and Miscellaneous Sources		
16. Cash provided (applied):		
16.1 Surplus notes, capital notes	0	0
16.2 Capital and paid in surplus, less treasury stock	0	0
16.3 Borrowed funds	0	0
16.4 Net deposits on deposit-type contracts and other insurance liabilities		0
16.5 Dividends to stockholders	0	0
16.6 Other cash provided (applied)	(25,930,890)	(19,360,403)
17. Net cash from financing and miscellaneous sources (Lines 16.1 to 16.4 minus Line 16.5 plus Line 16.6)	(25,930,890)	(19,360,403)
RECONCILIATION OF CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS		
18. Net change in cash, cash equivalents and short-term investments (Line 11, plus Line 15 plus Line 17)	(27,100,419)	16,223,381
19. Cash, cash equivalents and short-term investments:		
19.1 Beginning of year	22,184,795	5,961,414
19.2 End of year (Line 18 plus Line 19.1)	(4,915,624)	22,184,795

ANALYSIS OF OPERATIONS BY LINES OF BUSINESS

	1 Total	2 Comprehensive (Hospital & Medical)	3 Medicare Supplement	4 Dental Only	5 Vision Only	6 Federal Employees Health Benefit Plan	7 Title XVIII Medicare	8 Title XIX Medicaid	9 Other Health	10 Other Non-Health
1. Net premium income	2,927,358,276	1,271,276,748	30,745,372	34,382,571	0	1,568,732,026	0	0	22,221,559	0
2. Change in unearned premium reserves and reserve for rate credit	(50,511,159)					(50,511,159)				
3. Fee-for-service (net of $ medical expenses)	0									XXX
4. Risk revenue	0									XXX
5. Aggregate write-ins for other health care related revenues	14,020,781	0	0	0	0	13,960,000	0	0	60,781	XXX
6. Aggregate write-ins for other non-health care related revenues	0	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0
7. Total revenues (Lines 1 to 6)	2,890,867,898	1,271,276,748	30,745,372	34,382,571	0	1,532,180,867	0	0	22,282,340	0
8. Hospital/medical benefits	1,830,129,882	919,437,176	7,746,650			894,666,351	466,742		7,812,963	XXX
9. Other professional services	61,623,632	3,960,689	33,370	53,279,744		4,321,954	2,011		25,864	XXX
10. Outside referrals	0	0	0						0	XXX
11. Emergency room and out-of-area	271,271,539	128,767,579	1,084,922			140,512,809	65,367		840,862	XXX
12. Prescription drugs	690,420,830	277,021,599	2,334,025			410,924,579	140,627		0	XXX
13. Aggregate write-ins for other hospital and medical	0	0	0	0	0	0	0	0	0	XXX
14. Incentive pool, withhold adjustments and bonus amounts	0									XXX
15. Subtotal (Lines 8 to 14)	2,853,445,883	1,329,187,043	11,198,967	53,279,744	0	1,450,425,693	674,747	0	8,679,689	XXX
16. Net reinsurance recoveries	277,000,179	267,655,111	(13,085,707)	26,469,304			674,747		(4,713,276)	XXX
17. Total hospital and medical (Lines 15 minus 16)	2,576,445,704	1,061,531,932	24,284,674	26,810,440	0	1,450,425,693	0	0	13,392,965	XXX
18. Non-health claims (net)	0	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0
19. Claims adjustment expenses including $ cost containment expenses	97,283,478	48,462,250	2,496,544	4,290,659		38,548,952	0		3,485,073	
20. General administrative expenses	218,271,246	153,509,669	4,919,135	8,138,522		29,854,627	0		21,849,293	
21. Increase in reserves for accident and health contracts	0									XXX
22. Increase in reserves for life contracts	0	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	
23. Total underwriting deductions (Lines 17 to 22)	2,892,000,428	1,263,503,851	31,700,353	39,239,621	0	1,518,829,272	0	0	38,727,331	0
24. Net underwriting gain or (loss) (Line 7 minus Line 23)	(1,132,530)	7,772,897	(954,981)	(4,857,050)	0	13,351,595	0	0	(16,444,991)	0
DETAILS OF WRITE-INS										
0501. FEP Performance Incentive	13,960,000					13,960,000				XXX
0502. Trigon Network Fee	60,781								60,781	XXX
0503.	0									XXX
0598. Summary of remaining write-ins for Line 5 from overflow page	0	0	0	0	0	0	0	0	0	XXX
0599. Totals (Lines 0501 through 0503 plus 0598) (Line 5 above)	14,020,781	0	0	0	0	13,960,000	0	0	60,781	XXX
0601.	0	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	
0602.	0	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	
0603.	0	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	
0698. Summary of remaining write-ins for Line 6 from overflow page	0	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0
0699. Totals (Lines 0601 through 0603 plus 0698) (Line 6 above)	0	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0
1301.	0									XXX
1302.	0									XXX
1303.	0									XXX
1398. Summary of remaining write-ins for Line 13 from overflow page	0	0	0	0	0	0	0	0	0	XXX
1399. Totals (Lines 1301 through 1303 plus 1398) (Line 13 above)	0	0	0	0	0	0	0	0	0	XXX

UNDERWRITING AND INVESTMENT EXHIBIT

PART 1 - PREMIUMS

Line of Business	1 Direct Business	2 Reinsurance Assumed	3 Reinsurance Ceded	4 Net Premium Income (Cols. 1+2-3)
1. Comprehensive (hospital and medical)	1,589,379,171	48,050,985	366,153,408	1,271,276,748
2. Medicare Supplement	14,935,240	16,389,039	578,907	30,745,372
3. Dental Only	73,389,220	149,846	39,156,495	34,382,571
4. Vision Only				0
5. Federal Employees Health Benefits Plan	1,568,732,026			1,568,732,026
6. Title XVIII - Medicare	882,849		882,849	0
7. Title XIX - Medicaid				0
8. Other health	18,278,124	7,431,396	3,487,961	22,221,559
9. Health subtotal (Lines 1 through 8)	3,265,596,630	72,021,266	410,259,620	2,927,358,276
10. Life				0
11. Property/casualty				0
12. Totals (Lines 9 to 11)	3,265,596,630	72,021,266	410,259,620	2,927,358,276

UNDERWRITING AND INVESTMENT EXHIBIT

PART 2 – CLAIMS INCURRED DURING THE YEAR

	1 Total	2 Comprehensive (Hospital & Medical)	3 Medicare Supplement	4 Dental Only	5 Vision Only	6 Federal Employees Health Benefits Plan	7 Title XVIII Medicare	8 Title XIX Medicaid	9 Other Health	10 Other Non-Health
1. Payments during the year:										
1.1 Direct	2,899,895,315	1,361,092,488	11,378,024	52,683,274		1,465,516,935	572,306		8,652,288	
1.2 Reinsurance assumed	60,844,873	41,045,949	13,545,935	134,239					6,118,750	
1.3 Reinsurance ceded	342,572,565	313,720,217	523,543	26,344,031			572,306		1,412,468	
1.4 Net	2,618,167,623	1,088,418,220	24,400,416	26,473,482	0	1,465,516,935	0	0	13,358,570	0
2. Paid medical incentive pools and bonuses	0									
3. Claim liability December 31, current year from Part 2A:										
3.1 Direct	273,522,844	116,565,855	1,789,784	4,624,869	0	146,685,943	102,460	0	3,753,933	0
3.3 Reinsurance assumed	8,002,939	5,775,903	2,084,085	11,305	0	0	0	0	131,646	0
3.3 Reinsurance ceded	28,535,003	26,126,301	57,731	2,248,511	0	0	102,460	0	0	0
3.4 Net	252,990,780	96,215,457	3,816,138	2,387,663	0	146,685,943	0	0	3,885,579	0
4. Claim reserve December 31, current year from Part 2D:										
4.1 Direct	0					0				
4.2 Reinsurance assumed	0									
4.3 Reinsurance ceded	0	0	0	0	0	0	0	0	0	
4.4 Net	0	0	0	0	0	0	0	0	0	0
5. Accrued medical incentive pools and bonuses, current year	0									
6. Net healthcare receivables (a)	24,754,060	24,754,060								
7. Amounts recoverable from reinsurers December 31, current year	24,725,173	24,725,173								
8. Claim liability December 31, prior year from Part 2A:										
8.1 Direct	295,218,217	123,717,241	1,968,840	4,028,400	0	161,777,184	19	0	3,726,533	0
8.2 Reinsurance assumed	8,636,926	6,427,843	2,075,995	8,436	0	0	0	0	124,652	0
8.3 Reinsurance ceded	32,258,354	30,159,247	112,956	1,986,132	0	0	19	0	0	0
8.4 Net	271,596,789	99,985,837	3,931,879	2,050,704	0	161,777,184	0	0	3,851,185	0
9. Claim reserve December 31, prior year from Part 2D:										
9.1 Direct	0	0	0	0	0	0	0	0	0	0
9.2 Reinsurance assumed	0	0	0	0	0	0	0	0	0	0
9.3 Reinsurance ceded	0	0	0	0	0	0	0	0	0	0
9.4 Net	0	0	0	0	0	0	0	0	0	0
10. Accrued medical incentive pools and bonuses, prior year	0	0	0	0	0	0	0	0	0	0
11. Amounts recoverable from reinsurers December 31, prior year	26,363,324	26,363,324	0	0	0	0	0	0	0	0
12. Incurred benefits:										
12.1 Direct	2,853,445,882	1,329,187,042	11,198,968	53,279,743	0	1,450,425,694	674,747	0	8,679,688	0
12.2 Reinsurance assumed	60,210,886	40,394,009	13,554,025	137,108	0	0	0	0	6,125,744	0
12.3 Reinsurance ceded	337,211,063	308,049,120	468,318	26,606,410	0	0	674,747	0	1,412,468	0
12.4 Net	2,576,445,705	1,061,531,931	24,284,675	26,810,441	0	1,450,425,694	0	0	13,392,964	0
13. Incurred medical incentive pools and bonuses	0	0	0	0	0	0	0	0	0	0

(a) Excludes $ .... 34,100,300 loans or advances to providers not yet expensed.

UNDERWRITING AND INVESTMENT EXHIBIT

PART 2A - CLAIMS LIABILITY END OF CURRENT YEAR

	1 Total	2 Comprehensive (Hospital and Medical)	3 Medicare Supplement	4 Dental Only	5 Vision Only	6 Federal Employees Health Benefits Plan	7 Title XVIII Medicare	8 Title XIX Medicaid	9 Other Health	10 Other Non-Health
1. Reported in Process of Adjustment:										
1.1. Direct	14,350,241	6,117,862	93,935	242,732		7,698,690	0		197,022	0
1.2. Reinsurance assumed	509,053	509,053								
1.3. Reinsurance ceded	3,100,887	3,100,887					0			
1.4. Net	11,758,407	3,526,028	93,935	242,732	0	7,698,690	0	0	197,022	0
2. Incurred but Unreported:										
2.1. Direct	259,172,603	110,447,993	1,695,849	4,382,137		138,987,253	102,460		3,556,911	
2.2. Reinsurance assumed	7,493,886	5,266,850	2,084,085	11,305					131,646	
2.3. Reinsurance ceded	25,434,116	23,025,414	57,731	2,248,511			102,460			
2.4. Net	241,232,373	92,689,429	3,722,203	2,144,931	0	138,987,253	0	0	3,688,557	0
3. Amounts Withheld from Paid Claims and Capitations:										
3.1. Direct	0						0			
3.2. Reinsurance assumed	0						0			
3.3. Reinsurance ceded	0						0			
3.4. Net	0	0	0	0	0	0	0	0	0	0
4. TOTALS:										
4.1. Direct	273,522,844	116,565,855	1,789,784	4,624,869	0	146,685,943	102,460	0	3,753,933	0
4.2. Reinsurance assumed	8,002,939	5,775,903	2,084,085	11,305	0	0	0	0	131,646	0
4.3. Reinsurance ceded	28,535,003	26,126,301	57,731	2,248,511	0	0	102,460	0	0	0
4.4. Net	252,990,780	96,215,457	3,816,138	2,387,663	0	146,685,943	0	0	3,885,579	0

UNDERWRITING AND INVESTMENT EXHIBIT

PART 2B - ANALYSIS OF CLAIMS UNPAID - PRIOR YEAR-NET OF REINSURANCE

	Claims Paid During the Year		Claim Reserve and Claim Liability Dec. 31 of Current Year		5	6
Line of Business	1 On Claims Incurred Prior to January 1 of Current Year	2 On Claims Incurred During the Year	3 On Claims Unpaid December 31 of Prior Year	4 On Claims Incurred During the Year	Claims Incurred in Prior Years (Columns 1 + 3)	Estimated Claim Reserve and Claim Liability December 31 of Prior Year
1. Comprehensive (hospital and medical)	88,057,919	1,001,998,451	1,880,374	94,335,084	89,938,293	99,985,836
2. Medicare Supplement	3,633,142	20,767,273	98,357	3,717,782	3,731,499	3,931,879
3. Dental Only	1,996,402	24,477,080	8,250	2,379,412	2,004,652	2,050,704
4. Vision Only					0	0
5. Federal Employees Health Benefits Plan	144,115,269	1,321,401,666	2,985,894	143,700,049	147,101,163	161,777,184
6. Title XVIII - Medicare					0	0
7. Title XIX - Medicaid					0	0
8. Other health	1,003,993	12,354,577	346,062	3,539,517	1,350,055	3,851,186
9. Health subtotal (Lines 1 to 8)	238,806,725	2,380,999,047	5,318,937	247,671,844	244,125,662	271,596,789
10. Healthcare receivables (a)		24,754,060			0	
11. Other non-health					0	0
12. Medical incentive pools and bonus amounts					0	0
13. Totals (Lines 9-10+11+12)	238,806,725	2,356,244,987	5,318,937	247,671,844	244,125,662	271,596,789

(a) Excludes $ 34,100,300 loans or advances to providers not yet expensed.

UNDERWRITING AND INVESTMENT EXHIBIT

PART 2C - DEVELOPMENT OF PAID AND INCURRED HEALTH CLAIMS

(000 Omitted)

Section A – Paid Health Claims - Hospital and Medical

	Cumulative Net Amounts Paid				
Year in Which Losses Were Incurred	1 2005	2 2006	3 2007	4 2008	5 2009
1. Prior	2,294,485	2,294,577	2,294,688	2,294,814	2,294,913
2. 2005	715,332	790,000	791,599	791,964	792,045
3. 2006	XXX	802,589	886,535	888,143	888,332
4. 2007	XXX	XXX	973,429	1,058,779	1,060,624
5. 2008	XXX	XXX	XXX	925,457	1,011,301
6. 2009	XXX	XXX	XXX	XXX	977,244

Section B – Incurred Health Claims - Hospital and Medical

	Sum of Cumulative Net Amount Paid and Claim Liability, Claim Reserve and Medical Incentive Pool and Bonuses Outstanding at End of Year				
Year in Which Losses Were Incurred	1 2005	2 2006	3 2007	4 2008	5 2009
1. Prior	2,296,065	2,294,577	2,294,688	2,294,814	2,294,913
2. 2005	807,362	791,377	791,599	791,964	792,045
3. 2006	XXX	902,398	887,633	888,143	888,332
4. 2007	XXX	XXX	1,084,261	1,060,248	1,060,624
5. 2008	XXX	XXX	XXX	1,023,973	1,013,181
6. 2009	XXX	XXX	XXX	XXX	1,071,579

Section C – Incurred Year Health Claims and Claims Adjustment Expense Ratio – Hospital and Medical

Years in which Premiums were Earned and Claims were Incurred	1 Premiums Earned	2 Claims Payments	3 Claim Adjustment Expense Payments	4 Col. (3/2) Percent	5 Claim and Claim Adjustment Expense Payments (Col 2+3)	6 Col. (5/1) Percent	7 Claims Unpaid	8 Unpaid Claim Adjustment Expenses	9 Total Claims and Claims Adjustment Expense Incurred (Col. 5+7+8)	10 Col. (9/1) Percent
1. 2005	935,200	792,045	27,138	3.4	819,183	87.5			819,183	87.5
2. 2006	1,075,236	888,332	26,663	3.0	914,995	85.0			914,995	85.0
3. 2007	1,288,871	1,060,624	34,174	3.2	1,094,798	84.9			1,094,798	84.9
4. 2008	1,180,091	1,011,301	33,314	3.2	1,044,615	88.5	1,880	79	1,046,574	88.6
5. 2009	1,271,277	977,244	36,942	3.7	1,014,186	79.7	94,335	5,171	1,113,692	87.6

UNDERWRITING AND INVESTMENT EXHIBIT

PART 2C - DEVELOPMENT OF PAID AND INCURRED HEALTH CLAIMS

(000 Omitted)

Section A – Paid Health Claims - Medicare Supplement

Year in Which Losses Were Incurred	Cumulative Net Amounts Paid				
	1 2005	2 2006	3 2007	4 2008	5 2009
1. Prior	55,642	55,778	55,777	55,771	55,772
2. 2005	9,925	11,923	11,959	12,117	12,116
3. 2006	XXX	9,371	11,091	11,209	11,209
4. 2007	XXX	XXX	9,245	12,351	12,307
5. 2008	XXX	XXX	XXX	17,742	21,420
6. 2009	XXX	XXX	XXX	XXX	20,767

Section B - Incurred Health Claims - Medicare Supplement

Year in Which Losses Were Incurred	Sum of Cumulative Net Amount Paid and Claim Liability, Claim Reserve and Medical Incentive Pool and Bonuses Outstanding at End of Year				
	1 2005	2 2006	3 2007	4 2008	5 2009
1. Prior	55,692	55,778	55,777	55,771	55,772
2. 2005	11,965	11,980	11,959	12,117	12,116
3. 2006	XXX	11,688	11,122	11,209	11,209
4. 2007	XXX	XXX	11,305	12,344	12,307
5. 2008	XXX	XXX	XXX	21,681	21,518
6. 2009	XXX	XXX	XXX	XXX	24,485

Section C – Incurred Year Health Claims and Claims Adjustment Expense Ratio – Medicare Supplement

Years in which Premiums were Earned and Claims were Incurred	1 Premiums Earned	2 Claims Payments	3 Claim Adjustment Expense Payments	4 Col. (3/2) Percent	5 Claim and Claim Adjustment Expense Payments (Col 2+3)	6 Col. (5/1) Percent	7 Claims Unpaid	8 Unpaid Claim Adjustment Expenses	9 Total Claims and Claims Adjustment Expense Incurred (Col. 5+7+8)	10 Col. (9/1) Percent
1. 2005	16,384	12,116	410	3.3	12,526	76.4			12,526	76.4
2. 2006	15,172	11,209	337	3.0	11,546	76.1			11,546	76.1
3. 2007	15,256	12,307	397	3.2	12,704	83.2			12,704	83.2
4. 2008	29,269	21,420	706	3.2	22,126	75.5	98	4	22,228	75.9
5. 2009	30,745	20,767	1,903	9.1	22,670	73.7	3,718	266	26,654	86.6

UNDERWRITING AND INVESTMENT EXHIBIT

PART 2C - DEVELOPMENT OF PAID AND INCURRED HEALTH CLAIMS

(000 Omitted)

Section A – Paid Health Claims - Dental Only

	Cumulative Net Amounts Paid				
Year in Which Losses Were Incurred	1 2005	2 2006	3 2007	4 2008	5 2009
1. Prior	72,036	72,154	72,164	72,164	72,164
2. 2005	25,221	28,065	28,085	28,086	28,086
3. 2006	XXX	35,177	38,235	38,244	38,245
4. 2007	XXX	XXX	39,123	41,065	41,074
5. 2008	XXX	XXX	XXX	22,173	24,159
6. 2009	XXX	XXX	XXX	XXX	24,477

Section B – Incurred Health Claims - Dental Only

	Sum of Cumulative Net Amount Paid and Claim Liability, Claim Reserve and Medical Incentive Pool and Bonuses Outstanding at End of Year				
Year in Which Losses Were Incurred	1 2005	2 2006	3 2007	4 2008	5 2009
1. Prior	72,046	72,154	72,164	72,164	72,164
2. 2005	29,062	28,073	28,085	28,086	28,086
3. 2006	XXX	38,370	38,248	38,244	38,245
4. 2007	XXX	XXX	43,521	41,082	41,074
5. 2008	XXX	XXX	XXX	24,207	24,167
6. 2009	XXX	XXX	XXX	XXX	26,856

Section C – Incurred Year Health Claims and Claims Adjustment Expense Ratio – Dental Only

Years in which Premiums were Earned and Claims were Incurred	1 Premiums Earned	2 Claim Payments	3 Claim Adjustment Expense Payments	4 Col. (3/2) Percent	5 Claim and Claim Adjustment Expense Payments (Col 2+3)	6 Col. (5/1) Percent	7 Claims Unpaid	8 Unpaid Claim Adjustment Expenses	9 Total Claims and Claims Adjustment Expense Incurred (Col. 5+7+8)	10 Col. (9/1) Percent
1. 2005	41,263	28,086	869	3.0	28,955	70.1			28,955	70.1
2. 2006	50,825	38,245	1,148	3.0	39,393	77.5			39,393	77.5
3. 2007	60,911	41,074	1,323	3.2	42,397	69.6			42,397	69.6
4. 2008	32,912	24,159	796	3.2	24,955	75.8	8		24,963	75.8
5. 2009	34,383	24,477	3,271	13.3	27,748	80.7	2,379	458	30,585	88.9

UNDERWRITING AND INVESTMENT EXHIBIT

PART 2C - DEVELOPMENT OF PAID AND INCURRED HEALTH CLAIMS

(000 Omitted)

Section A – Paid Health Claims - Federal Employees Health Benefits Plan Premium

	Cumulative Net Amounts Paid				
Year in Which Losses Were Incurred	1 2005	2 2006	3 2007	4 2008	5 2009
1. Prior	4,030,121	4,030,388	4,029,556	4,029,232	4,029,091
2. 2005	1,045,438	1,167,825	1,168,373	1,168,039	1,167,946
3. 2006	XXX	1,101,484	1,247,007	1,248,077	1,247,639
4. 2007	XXX	XXX	1,205,791	1,355,481	1,355,844
5. 2008	XXX	XXX	XXX	1,283,267	1,427,693
6. 2009	XXX	XXX	XXX	XXX	1,321,402

Section B - Incurred Health Claims - Federal Employees Health Benefits Plan Premium

	Sum of Cumulative Net Amount Paid and Claim Liability, Claim Reserve and Medical Incentive Pool and Bonuses Outstanding at End of Year				
Year in Which Losses Were Incurred	1 2005	2 2006	3 2007	4 2008	5 2009
1. Prior	4,033,266	4,030,388	4,029,556	4,029,233	4,029,091
2. 2005	1,188,573	1,169,197	1,168,373	1,168,039	1,167,946
3. 2006	XXX	1,253,701	1,248,409	1,248,077	1,247,639
4. 2007	XXX	XXX	1,380,549	1,358,688	1,355,844
5. 2008	XXX	XXX	XXX	1,441,838	1,430,679
6. 2009	XXX	XXX	XXX	XXX	1,465,102

Section C – Incurred Year Health Claims and Claims Adjustment Expense Ratio – Federal Employees Health Benefits Plan Premium

Years in which Premiums were Earned and Claims were Incurred	1 Premiums Earned	2 Claims Payments	3 Claim Adjustment Expense Payments	4 Col. (3/2) Percent	5 Claim and Claim Adjustment Expense Payments (Col 2+3)	6 Col. (5/1) Percent	7 Claims Unpaid	8 Unpaid Claim Adjustment Expenses	9 Total Claims and Claims Adjustment Expense Incurred (Col. 5+7+8)	10 Col. (9/1) Percent
1. 2005	1,250,939	1,167,946	36,168	3.0	1,204,114	96.2			1,204,114	96.2
2. 2006	1,295,757	1,247,639	37,469	3.0	1,285,108	99.1			1,285,108	99.1
3. 2007	1,426,028	1,355,844	43,686	3.2	1,399,530	98.1			1,399,530	98.1
4. 2008	1,480,392	1,427,693	47,031	3.2	1,474,724	99.6	2,986	125	1,477,835	99.8
5. 2009	1,518,221	1,321,402	29,386	2.2	1,350,788	88.9	143,700	4,114	1,498,602	98.7

UNDERWRITING AND INVESTMENT EXHIBIT

PART 2C - DEVELOPMENT OF PAID AND INCURRED HEALTH CLAIMS

(000 Omitted)

Section A - Paid Health Claims - Other

Year in Which Losses Were Incurred	Cumulative Net Amounts Paid				
	1 2005	2 2006	3 2007	4 2008	5 2009
1. Prior	18,541	18,532	18,531	18,532	18,531
2. 2005	6,035	6,060	6,062	6,070	6,070
3. 2006	XXX	11,560	11,561	11,572	11,572
4. 2007	XXX	XXX	11,035	12,368	12,396
5. 2008	XXX	XXX	XXX	12,402	13,378
6. 2009	XXX	XXX	XXX	XXX	12,355

Section B – Incurred Health Claims - Other

Year in Which Losses Were Incurred	Sum of Cumulative Net Amount Paid and Claim Liability, Claim Reserve and Medical Incentive Pool and Bonuses Outstanding at End of Year				
	1 2005	2 2006	3 2007	4 2008	5 2009
1. Prior	19,691	18,532	18,531	18,531	18,531
2. 2005	9,707	6,060	6,062	6,070	6,070
3. 2006	XXX	16,569	11,561	11,572	11,572
4. 2007	XXX	XXX	14,784	12,724	12,396
5. 2008	XXX	XXX	XXX	15,897	13,724
6. 2009	XXX	XXX	XXX	XXX	15,894

Section C – Incurred Year Health Claims and Claims Adjustment Expense Ratio – Other

Years in which Premiums were Earned and Claims were Incurred	1 Premiums Earned	2 Claim Payments	3 Claim Adjustment Expense Payments	4 Col. (3/2) Percent	5 Claim and Claim Adjustment Expense Payments (Col 2+3)	6 Col. (5/1) Percent	7 Claims Unpaid	8 Unpaid Claim Adjustment Expenses	9 Total Claims and Claims Adjustment Expense Incurred (Col. 5+7+8)	10 Col. (9/1) Percent
1. 2005	12,540	6,070	208	3.4	6,278	50.0			6,278	50.0
2. 2006	19,540	11,572	347	2.9	11,919	60.9			11,919	60.9
3. 2007	23,963	12,396	399	3.2	12,795	53.3			12,795	53.3
4. 2008	21,331	13,378	441	3.2	13,819	64.7	346	15	14,180	66.4
5. 2009	22,222	12,355	2,657	21.5	15,012	67.5	3,540	372	18,924	85.1

UNDERWRITING AND INVESTMENT EXHIBIT

PART 2C - DEVELOPMENT OF PAID AND INCURRED HEALTH CLAIMS

(000 Omitted)

Section A - Paid Health Claims - Grand Total

	Cumulative Net Amounts Paid				
Year in Which Losses Were Incurred	1 2005	2 2006	3 2007	4 2008	5 2009
1. Prior	6,470,825	6,471,429	6,470,716	6,470,513	6,470,471
2. 2005	1,801,951	2,003,873	2,006,078	2,006,276	2,006,263
3. 2006	XXX	1,960,181	2,194,429	2,197,245	2,196,997
4. 2007	XXX	XXX	2,238,623	2,480,044	2,482,245
5. 2008	XXX	XXX	XXX	2,261,041	2,497,951
6. 2009	XXX	XXX	XXX	XXX	2,356,245

Section B - Incurred Health Claims - Grand Total

	Sum of Cumulative Net Amount Paid and Claim Liability, Claim Reserve and Medical Incentive Pool and Bonuses Outstanding at End of Year				
Year in Which Losses Were Incurred	1 2005	2 2006	3 2007	4 2008	5 2009
1. Prior	6,476,760	6,471,429	6,470,716	6,470,513	6,470,471
2. 2005	2,046,669	2,006,687	2,006,078	2,006,276	2,006,263
3. 2006	XXX	2,222,726	2,196,973	2,197,245	2,196,997
4. 2007	XXX	XXX	2,534,420	2,485,086	2,482,245
5. 2008	XXX	XXX	XXX	2,527,596	2,503,269
6. 2009	XXX	XXX	XXX	XXX	2,603,916

Section C – Incurred Year Health Claims and Claims Adjustment Expense Ratio – Grand Total

Years in which Premiums were Earned and Claims were Incurred	1 Premiums Earned	2 Claims Payments	3 Claim Adjustment Expense Payments	4 Col. (3/2) Percent	5 Claim and Claim Adjustment Expense Payments (Col 2+3)	6 Col. (5/1) Percent	7 Claims Unpaid	8 Unpaid Claim Adjustment Expenses	9 Total Claims and Claims Adjustment Expense Incurred (Col. 5+7+8)	10 Col. (9/1) Percent
1. 2005	2,256,326	2,006,263	64,793	3.2	2,071,056	91.7	0	0	2,071,056	91.7
2. 2006	2,456,530	2,196,997	65,964	3.0	2,262,961	92.1	0	0	2,262,961	92.1
3. 2007	2,815,029	2,482,245	79,979	3.2	2,562,224	91.0	0	0	2,562,224	91.0
4. 2008	2,743,995	2,497,951	82,288	3.2	2,580,239	94.0	5,318	223	2,585,780	94.2
5. 2009	2,876,848	2,356,245	74,159	3.1	2,430,404	84.4	247,672	10,381	2,688,457	93.4

UNDERWRITING AND INVESTMENT EXHIBIT

PART 2D - AGGREGATE RESERVE FOR ACCIDENT AND HEALTH CONTRACTS ONLY

	1 Total	2 Comprehensive (Hospital & Medical)	3 Medicare Supplement	4 Dental Only	5 Vision Only	6 Federal Employees Health Benefit Plan	7 Title XVIII Medicare	8 Title XIX Medicaid	9 Other
1. Unearned premium reserves	0								
2. Additional policy reserves (a)	0								
3. Reserve for future contingent benefits	0								
4. Reserve for rate credits or experience rating refunds (including $) for investment income	506,185,845					506,185,845			
5. Aggregate write-ins for other policy reserves	0	0	0	0	0	0	0	0	0
6. Totals (gross)	506,185,845	0	0	0	0	506,185,845	0	0	0
7. Reinsurance ceded	0								
8. Totals (Net) (Page 3, Line 4)	506,185,845	0	0	0	0	506,185,845	0	0	0
9. Present value of amounts not yet due on claims	0								
10. Reserve for future contingent benefits	0								
11. Aggregate write-ins for other claim reserves	0	0	0	0	0	0	0	0	0
12. Totals (Gross)	0	0	0	0	0	0	0	0	0
13. Reinsurance ceded	0								
14. Totals (Net) (Page 3, Line 7)	0	0	0	0	0	0	0	0	0
DETAILS OF WRITE-INS									
0501.	0								
0502.	0								
0503.	0								
0598. Summary of remaining write-ins for Line 5 from overflow page	0	0	0	0	0	0	0	0	0
0599. Totals (Lines 0501 through 0503 plus 0598) (Line 5 above)	0	0	0	0	0	0	0	0	0
1101.	0								
1102.	0								
1103.	0								
1198. Summary of remaining write-ins for Line 11 from overflow page	0	0	0	0	0	0	0	0	0
1199. Totals (Lines 1101 through 1103 plus 1198) (Line 11 above)	0	0	0	0	0	0	0	0	0

(a) Includes $ premium deficiency reserve.

UNDERWRITING AND INVESTMENT EXHIBIT

PART 3 - ANALYSIS OF EXPENSES

	Claim Adjustment Expenses		3	4	5
	1 Cost Containment Expenses	2 Other Claim Adjustment Expenses	General Administration Expenses	Investment Expenses	Total
1. Rent ($ .... for occupancy of own building)	2,482,354	7,029,423	7,291,404		16,803,181
2. Salaries, wages and other benefits	19,501,629	58,781,356	52,382,148		130,665,133
3. Commissions (less $ 27,553,597 ceded plus $ 4,369,778 assumed			76,174,533		76,174,533
4. Legal fees and expenses	33	1,352	3,310,864		3,312,249
5. Certifications and accreditation fees					0
6. Auditing, actuarial and other consulting services	115,414	334,168	2,736,618		3,186,200
7. Traveling expenses	159,576	469,304	1,718,097		2,346,977
8. Marketing and advertising			2,428,986		2,428,986
9. Postage, express and telephone	252,243	5,542,793	4,341,105		10,136,141
10. Printing and office supplies	481,019	1,469,987	2,344,805		4,295,811
11. Occupancy, depreciation and amortization					0
12. Equipment	17,346	75,482	1,026,775		1,119,603
13. Cost or depreciation of EDP equipment and software	1,629,422	6,362,902	28,216,240		36,208,564
14. Outsourced services including EDP, claims, and other services	2,620,713	20,084,813	27,086,816		49,792,342
15. Boards, bureaus and association fees	49,587	15,873	1,654,600		1,720,060
16. Insurance, except on real estate	193,709	708,775	573,082		1,475,566
17. Collection and bank service charges	11,611		240,806		252,417
18. Group service and administration fees					0
19. Reimbursements by uninsured plans	(10,265,587)	(23,824,082)	(36,248,473)		(70,338,142)
20. Reimbursements from fiscal intermediaries					0
21. Real estate expenses					0
22. Real estate taxes			201,276		201,276
23. Taxes, licenses and fees:					
23.1 State and local insurance taxes					0
23.2 State premium taxes			28,050,384		28,050,384
23.3 Regulatory authority licenses and fees	859		2,051,202		2,052,061
23.4 Payroll taxes	1,246,235	3,679,322	3,475,794		8,401,351
23.5 Other (excluding federal income and real estate taxes)	10,831	40,219	285,393		336,443
24. Investment expenses not included elsewhere				1,573,542	1,573,542
25. Aggregate write-ins for expenses	167,885	(2,163,086)	8,928,790	0	6,933,589
26. Total expenses incurred (Lines 1 to 25)	18,674,879	78,608,601	218,271,245	1,573,542	(a) 317,128,267
27. Less expenses unpaid December 31, current year		10,604,000	103,086,984		113,690,984
28. Add expenses unpaid December 31, prior year	0	10,120,800	107,065,377	0	117,186,177
29. Amounts receivable relating to uninsured plans, prior year	2,847,103	12,278,817	32,553,717	0	47,679,637
30. Amounts receivable relating to uninsured plans, current year	2,418,710	10,181,132	28,269,786		40,869,628
31. Total expenses paid (Lines 26 minus 27 plus 28 minus 29 plus 30)	18,246,486	76,027,716	217,965,707	1,573,542	313,813,451
DETAIL OF WRITE-INS					
2501. Charitable contributions	648	238	5,843,426		5,844,312
2502. Service charges Inter-plan Bank		7,854,244	(30,918)		7,823,326
2503. IPSBB Inter-Plan Bank		11,835,206			11,835,206
2598. Summary of remaining write-ins for Line 25 from overflow page	167,237	(21,852,774)	3,116,282	0	(18,569,255)
2599. Totals (Line 2501 through 2503 + 2598) (Line 25 above)	167,885	(2,163,086)	8,928,790	0	6,933,589

(a) Includes management fees of $ 192,809,325 to affiliates and $ .... to non-affiliates.

EXHIBIT OF NET INVESTMENT INCOME

		1 Collected During Year	2 Earned During Year
1.	U.S. Government bonds	(a) 1,563,508	2,817,453
1.1	Bonds exempt from U.S. tax	(a)	
1.2	Other bonds (unaffiliated)	(a) 28,756,079	28,964,846
1.3	Bonds of affiliates	(a) 0	
2.1	Preferred stocks (unaffiliated)	(b) 587,458	545,936
2.11	Preferred stocks of affiliates	(b) 0	
2.2	Common stocks (unaffiliated)	1,169,609	1,169,609
2.21	Common stocks of affiliates	0	
3.	Mortgage loans	(c)	
4.	Real estate	(d)	
5.	Contract loans		
6.	Cash, cash equivalents and short-term investments	(e) 456,221	411,485
7.	Derivative instruments	(f)	
8.	Other invested assets		10,000
9.	Aggregate write-ins for investment income	0	1,065,634
10.	Total gross investment income	32,532,875	34,984,963
11.	Investment expenses		(g) 1,573,542
12.	Investment taxes, licenses and fees, excluding federal income taxes		(g)
13.	Interest expense		(h)
14.	Depreciation on real estate and other invested assets		(i)
15.	Aggregate write-ins for deductions from investment income		0
16.	Total deductions (Lines 11 through 15)		1,573,542
17.	Net investment income (Line 10 minus Line 16)		33,411,421
	DETAILS OF WRITE-INS		
0901.	Misc Interest Income		1,065,634
0902.			
0903.			
0998.	Summary of remaining write-ins for Line 9 from overflow page	0	0
0999.	Totals (Lines 0901 through 0903) plus 0998 (Line 9 above)	0	1,065,634
1501.			
1502.			
1503.			
1598.	Summary of remaining write-ins for Line 15 from overflow page		0
1599.	Totals (Lines 1501 through 1503) plus 1598 (Line 15 above)		0

(a) Includes $ 2,989,523 accrual of discount less $ 2,530,983 amortization of premium and less $ 4,827,707 paid for accrued interest on purchases.
(b) Includes $ 42,320 accrual of discount less $ 797 amortization of premium and less $ 0 paid for accrued dividends on purchases.
(c) Includes $ 0 accrual of discount less $ 0 amortization of premium and less $ paid for accrued interest on purchases.
(d) Includes $ for company's occupancy of its own buildings; and excludes $ interest on encumbrances.
(e) Includes $ 137 accrual of discount less $ amortization of premium and less $ paid for accrued interest on purchases.
(f) Includes $ accrual of discount less $ amortization of premium.
(g) Includes $ investment expenses and $ investment taxes, licenses and fees, excluding federal income taxes, attributable to segregated and Separate Accounts.
(h) Includes $ interest on surplus notes and $ interest on capital notes.
(i) Includes $ depreciation on real estate and $ depreciation on other invested assets.

EXHIBIT OF CAPITAL GAINS (LOSSES)

		1 Realized Gain (Loss) On Sales or Maturity	2 Other Realized Adjustments	3 Total Realized Capital Gain (Loss) (Columns 1 + 2)	4 Change in Unrealized Capital Gain (Loss)	5 Change in Unrealized Foreign Exchange Capital Gain (Loss)
1.	U.S. Government bonds	2,550,326		2,550,326		
1.1	Bonds exempt from U.S. tax			0		
1.2	Other bonds (unaffiliated)	4,312,407	(4,583,806)	(271,399)	531,487	
1.3	Bonds of affiliates	0	0	0	0	0
2.1	Preferred stocks (unaffiliated)	2,172,911	(2,995,140)	(822,229)	2,026,106	0
2.11	Preferred stocks of affiliates	0	0	0	0	0
2.2	Common stocks (unaffiliated)	12,345,281	0	12,345,281	13,033,331	0
2.21	Common stocks of affiliates	0	0	0	25,888,932	0
3.	Mortgage loans	0	0	0	0	0
4.	Real estate	0	0	0		0
5.	Contract loans			0		
6.	Cash, cash equivalents and short-term investments	(135)	0	(135)	0	0
7.	Derivative instruments			0		
8.	Other invested assets	0	0	0	(551,649)	0
9.	Aggregate write-ins for capital gains (losses)	0	0	0	0	0
10.	Total capital gains (losses)	21,380,790	(7,578,946)	13,801,843	40,928,207	0
	DETAILS OF WRITE-INS					
0901.				0		
0902.				0		
0903.				0		
0998.	Summary of remaining write-ins for Line 9 from overflow page	0	0	0	0	0
0999.	Totals (Lines 0901 through 0903) plus 0998 (Line 9, above)	0	0	0	0	0

EXHIBIT OF NONADMITTED ASSETS

	1 Current Year Total Nonadmitted Assets	2 Prior Year Total Nonadmitted Assets	3 Change in Total Nonadmitted Assets (Col. 2 - Col. 1)
1. Bonds (Schedule D)	0	0	0
2. Stocks (Schedule D):			
2.1 Preferred stocks	0	0	0
2.2 Common stocks	0	0	0
3. Mortgage loans on real estate (Schedule B):			
3.1 First liens	0	0	0
3.2 Other than first liens	0	0	0
4. Real estate (Schedule A):			
4.1 Properties occupied by the company	0	0	0
4.2 Properties held for the production of income	0	0	0
4.3 Properties held for sale	0	0	0
5. Cash, (Schedule E-Part 1), cash equivalents (Schedule E-Part 2) and short-term investments (Schedule DA)	0	0	0
6. Contract loans	0	0	0
7. Other invested assets (Schedule BA)	166,667	166,667	0
8. Receivables for securities	0	0	0
9. Aggregate write-ins for invested assets	0	0	0
10. Subtotals, cash and invested assets (Lines 1 to 9)	166,667	166,667	0
11. Title plants (for Title insurers only)	0	0	0
12. Investment income due and accrued	0	0	0
13. Premiums and considerations:			
13.1 Uncollected premiums and agents' balances in the course of collection	2,521,514	717,613	(1,803,901)
13.2 Deferred premiums, agents' balances and installments booked but deferred and not yet due	0	0	0
13.3 Accrued retrospective premiums	0	0	0
14. Reinsurance:			
14.1 Amounts recoverable from reinsurers	0	0	0
14.2 Funds held by or deposited with reinsured companies	0	0	0
14.3 Other amounts receivable under reinsurance contracts	0	0	0
15. Amounts receivable relating to uninsured plans	1,917,054	844,756	(1,072,298)
16.1 Current federal and foreign income tax recoverable and interest thereon	0	0	0
16.2 Net deferred tax asset	23,563,646	136,664,227	113,100,581
17. Guaranty funds receivable or on deposit	0	0	0
18. Electronic data processing equipment and software	91,500,453	62,031,946	(29,468,507)
19. Furniture and equipment, including health care delivery assets	7,019,802	4,625,895	(2,393,907)
20. Net adjustment in assets and liabilities due to foreign exchange rates	0	0	0
21. Receivables from parent, subsidiaries and affiliates	0	15,990	15,990
22. Health care and other amounts receivable	4,514,303	4,495,621	(18,682)
23. Aggregate write-ins for other than invested assets	77,027,391	67,972,746	(9,054,645)
24. Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Lines 10 to 23)	208,230,830	277,535,461	69,304,631
25. From Separate Accounts, Segregated Accounts and Protected Cell Accounts	0	0	0
26. Total (Lines 24 and 25)	208,230,830	277,535,461	69,304,631
DETAILS OF WRITE-INS			
0901.			0
0902.			0
0903.			0
0998. Summary of remaining write-ins for Line 9 from overflow page	0	0	0
0999. Totals (Lines 0901 through 0903 plus 0998) (Line 9 above)	0	0	0
2301. Other Assets			0
2302. Other Assets non admitted	77,027,391	67,972,746	(9,054,645)
2303. Intangible assets			0
2398. Summary of remaining write-ins for Line 23 from overflow page	0	0	0
2399. Totals (Lines 2301 through 2303 plus 2398) (Line 23 above)	77,027,391	67,972,746	(9,054,645)

EXHIBIT 1 - ENROLLMENT BY PRODUCT TYPE FOR HEALTH BUSINESS ONLY

Source of Enrollment	Total Members at End of					6
	1 Prior Year	2 First Quarter	3 Second Quarter	4 Third Quarter	5 Current Year	Current Year Member Months
1. Health Maintenance Organizations	48,728	41,638	42,031	37,689	38,281	478,367
2. Provider Service Organizations	0					
3. Preferred Provider Organizations	752,816	760,937	761,163	759,748	761,158	9,125,402
4. Point of Service	64,507	43,219	43,611	44,675	46,389	530,633
5. Indemnity Only	16,392	13,297	12,690	13,534	15,925	162,620
6. Aggregate write-ins for other lines of business	0	0	0	0	0	0
7. Total	882,443	859,091	859,495	855,646	861,753	10,297,022
DETAILS OF WRITE-INS						
0601.						
0602.						
0603.						
0698. Summary of remaining write-ins for Line 6 from overflow page	0	0	0	0	0	0
0699. Totals (Lines 0601 through 0603 plus 0698) (Line 6 above)	0	0	0	0	0	0

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

A. Accounting Practices

The financial statements of Group Hospitalization and Medical Services, Inc. (GHMSI or the Company) are presented on the basis of accounting practices prescribed by the District of Columbia Department of Insurance, Securities and Banking (DISB).

The DISB recognizes only statutory accounting practices prescribed or permitted by the District of Columbia for determining and reporting the financial condition and results of operations of an insurance company, for determining its solvency under the District of Columbia Insurance Law. The National Association of Insurance Commissioners' (NAIC) *Accounting Practices and Procedures* manual (NAIC SAP) has been adopted as a component of prescribed practices by the District of Columbia. The Company does not utilize any permitted practices.

For the years ended 2009 and 2008, there were no differences in net income and surplus between NAIC SAP and practices prescribed by the District of Columbia.

B. Use of Estimates in the Preparation of the Financial Statements

The preparation of financial statements in conformity with statutory accounting practices requires management to make estimates and assumptions that affect the reported amounts of admitted assets, liabilities, revenues and expenses in the financial statements and in the disclosures of contingent assets and liabilities. While actual results could differ from those estimates, management believes that actual results will not be materially different from those amounts provided in the accompanying statutory basis financial statements.

C. Accounting Policy

Fair Value of Financial Instruments

The carrying amounts of cash and short-term investments, uncollected premiums, other amounts receivable under reinsurance contracts, amounts receivable relating to uninsured plans, federal income tax recoverable, receivables from parent, subsidiaries and affiliates, health care and other amounts receivable, investment income due and accrued, aggregate health policy reserves, premiums received in advance, general expenses due or accrued, amounts withheld or retained for the account of others, remittances and items not allocated, amounts due to parent, subsidiaries and affiliates, liability for amounts held under uninsured plans and reinsurance payable approximate fair value.

Investments

Investment securities are carried in accordance with valuation criteria established by the NAIC, i.e. stocks (other than investments in subsidiaries) are carried at market value and bonds at amortized cost. Adjustments reflecting the, revaluation of stocks at the statement date are charged to unassigned funds (surplus), unless the adjustments are losses deemed to be other than temporary.

The Company periodically performs evaluations, on a lot-by-lot and security-by-security basis, of its investment holdings in accordance with its impairment policy to evaluate whether any declines in the fair value of investments are other than temporary. This evaluation consists of a review of several factors, including but not limited to: length of time and extent that a security has been in an unrealized loss position; the existence of an event that would impair the issuer's future earnings potential; the near term prospects for recovery of the market value of a security; and the intent and ability of the Company to hold the security until the market value recovers. As discussed in more detail below, prior to July 1, 2009, these reviews were conducted pursuant to the applicable SSAPs. Any unrealized loss identified as other than temporary was recorded directly in the investment income, net. As of July 1, 2009, the Company adopted SSAP No. 43R *Loan-backed and Structured Securities* (SSAP No. 43R) a replacement to SSAP No. 43 *Loan-backed and Structured Securities* and SSAP No. 98 *Treatment of Cash Flows When Quantifying Changes in Valuation and Impairments,* an Amendment of SSAP No. 43 *Loan-backed and Structured Securities*. Accordingly, any non-interest related impairment related to mortgage-backed and asset-backed securities that the Company does not intend to sell and has the intent and ability to retain until recovery is recognized in investment income, net, with the interest related impairment recognized in capital and surplus.

For equity securities and non mortgage-backed/asset-backed securities, there was no change in the impairment methodology. The Company considers the various factors described above, including its intent and ability to hold the equity security for a period of time sufficient for recovery to cost. Where the Company lacks the intent or ability, the security's decline in fair value is deemed to be other than temporary and the entire difference between fair value and cost is recognized in investment income, net.

For mortgage-backed and asset-backed securities, that are not deemed to have non-interest related declines, the Company performs additional analysis to assess whether it intends to sell or it has the intent and ability to retain the investment before the expected recovery of the amortized cost basis. The Company has asserted that it has no intent to sell and that it believes it has the intent and ability to retain the investment before recovery of its amortized cost basis. If such an assertion had not been made, the security's decline in fair value is deemed to be other than temporary and the entire difference between fair value and amortized cost is recognized in investment income, net.

For mortgage-backed and asset-backed securities, a critical component of the evaluation for the Other than Temporary Impairments (OTTI) is the identification of securities that have non-interest related declines, where the Company does not expect to receive cash flows sufficient to recover the entire amortized cost basis of the security. The difference between the present value of projected future cash flows expected to be collected and the amortized cost basis is recognized as non-interest related OTTI in investment income, net. If fair value is less than the present value of projected future cash flows expected to be collected, the interest related OTTI is recorded in capital and surplus.

In order to determine the amount of non-interest related loss for mortgage-backed and asset-backed securities, the Company calculates the recovery value by performing a discounted cash flow analysis based on the present value of future cash flows

NOTES TO FINANCIAL STATEMENTS

expected to be received. The discount rate is generally the effective interest rate of the mortgage-backed or asset-backed security prior to impairment.

When determining the collectability and the period over which the mortgage-backed and asset-backed securities are expected to recover, the Company considers the same factors utilized in its overall impairment evaluation process described above. Additional considerations are made when assessing the unique features that apply to certain structured securities such as residential mortgage-backed, commercial mortgage-backed and asset-backed securities. These additional factors include, but are not limited to: the quality of underlying collateral; expected prepayment speeds; current and forecasted loss severity; consideration of payment terms of underlying assets backing a particular security; and the payment priority within the tranche structure of the security.

Based on its evaluation, the Company has recorded other than temporary impairment of investments of $7,579,000 and $41,626,000 for the years ended December 31, 2009 and 2008, respectively.

The Company believes that it has adequately reviewed its investment securities for impairment and that its investment securities are carried at fair value. However, over time, the economic and market environment may provide additional insight regarding the fair value of certain securities, which could change management's judgment regarding impairment. This could result in realized losses relating to other than temporary declines being charged against future income. Given the judgments involved, there is a continuing risk that further declines in fair value may occur and additional material OTTI may be recorded in future periods.

Cash and Short-Term Investments

Cash and short-term investments consist of cash balances and short-term, highly liquid investments with remaining maturities of one year or less at the time of acquisition. Short-term investments are principally stated at amortized cost. In accordance with the Company's cash management policy of maximizing the amount of funds invested in income-earning assets, the Company routinely anticipates the timing and amount of future cash flows. This policy frequently results in the existence of negative book cash balances.

Bonds

Bonds consist primarily of U.S. Treasury and agency securities, state and municipal securities, foreign governments securities (U.S. dollar-denominated), corporate bonds, mortgage-backed securities, asset-backed securities and convertible bonds.

Bonds not backed by other loans are carried at amortized cost, except in cases where NAIC designation requires them to be carried at the lower of cost or fair value. Fair values for bonds are based on quoted market prices for the same or similar investments. The Company's policy is to recognize any realized gains and losses on a specific identification basis. Changes in admitted asset carrying amounts of bonds, aside from OTTI, are charged directly to capital and surplus.

Mortgaged-backed securities that are included within bonds are valued at amortized cost using the interest method including anticipated prepayments. Prepayment assumptions are obtained from external sources and are based on the current interest rate and economic environment. The prospective adjustment method is used to value all such securities.

Stocks

Investments in common stock, primarily in publicly traded index funds, are carried at fair value. The fair values for common stocks are based on quoted market prices. The Company's policy is to recognize any realized gains or losses on a specific-identification basis. Changes in admitted asset carrying amounts of stocks, aside from OTTI, are charged directly to capital and surplus.

Stocks also include the Company's investments in subsidiaries and other affiliates. The Company's insurance subsidiaries are reported at their underlying statutory equity, multiplied by the Company's percentage ownership. The Company's wholly-owned noninsurance subsidiaries, which have significant ongoing operations other than for the Company and its affiliates, are reported at GAAP equity.

Redeemable preferred stocks are carried at cost, except in cases where NAIC designation requires them to be carried at lower of cost or fair value. Perpetual preferred stocks are valued using unit prices as reported in NAIC Valuations of Securities Manual except in cases where NAIC designation requires them to be carried at lower of cost or fair value.

Investment Dispositions

A primary objective in the management of the fixed maturity and equity portfolios is to maximize total return relative to underlying liabilities and respective liquidity needs. In achieving this goal, assets may be sold to take advantage of market conditions or other investment opportunities, as well as tax considerations. Sales will generally produce realized gains and losses. In the ordinary course of business, the Company may sell securities for a number of reasons, including, but not limited to: (i) changes to the investment environment; (ii) expectation that the fair value could deteriorate further; (iii) desire to reduce exposure to an issuer or an industry; (iv) changes in credit quality; and (v) changes in expected cash flow. For purpose of computing realized gains and losses, the specific-identification method of determining cost was used.

Other Invested Assets

Other invested assets consist of direct investments in a limited partnership and a limited liability company. The limited partnership and limited liability company which have admissible audits are carried at the underlying equity of the investee. Dividends and distributions are recorded in investment income. Undistributed earnings are included in unrealized gains and losses and are reflected in capital and surplus, net of deferred taxes.

NOTES TO FINANCIAL STATEMENTS

Risk Concentrations

Financial instruments that potentially subject the Company to credit risk consist primarily of investments in bonds, uncollected premiums, amounts receivable related to uninsured accident and health plans and miscellaneous accounts receivable. The Company's investments are primarily comprised of investment grade securities as rated by the NAIC. The Company receives advice through or assigns direct management of investments to professional investment managers selected for their expertise in various markets, within guidelines established by the Board of Directors. These guidelines include broad diversification of investments. Aside from the Federal Employee Program (FEP) discussed below, concentrations of credit risk and business volume with respect to commercial uncollected premiums and other amounts receivable are generally limited due to the large number of employer groups comprising the Company's customer base. The Company performs ongoing credit evaluations of customers and generally does not require collateral.

Health Care and Other Amounts Receivable

Health care and other amounts receivable consists of pharmacy rebates receivable, advances to providers, the Company's allocable share of the FEP special reserve discussed below, and health care related receivables from other insurance plans. The Company has advances on deposit with certain regulated hospitals in the State of Maryland. These advances permit the Company to earn discounts of 2.25% and 2.00% of allowed inpatient and outpatient charges, respectively, by these hospitals. These provider advances are reported at their realizable value in the accompanying statements of admitted assets, liabilities, capital and surplus—statutory basis.

Property and Equipment Admitted

Property and equipment admitted were recorded at cost and are depreciated on the straight-line method over a useful life of three years. The admitted value of the Company's electronic data processing equipment is limited to three percent of capital and surplus. Electronic data processing equipment is depreciated using the straight-line method over the lesser of its useful life or three years.

There have not been any changes to the Company's capitalization policy or the related predefined thresholds from the prior period.

Unpaid losses and loss adjustment expenses

The liability for unpaid claims and claim adjustment expenses includes medical claims payable and the related accrued claims processing expenses. Unpaid claims are computed in accordance with generally accepted actuarial practices and are based upon authorized health care services and past claims payment experience, together with other current factors which, in management's judgment, require recognition in the calculation.

Each reporting period, the Company estimates its liability for medical care services that have been rendered on behalf of insured members but for which claims have either not been received or processed. The Company develops its estimates for medical care services incurred but not reported using an actuarial process that is consistently applied. The actuarial models consider factors such as time from the dates of service to claims receipt, claims backlogs, seasonal variances in medical care consumption, provider rate changes, medical care utilization and other medical cost trends, membership volume and demographics and other factors. Depending on the health care provider and type of service, the typical billing lag for services can vary significantly. Substantially all claims related to medical care services are known and settled within twelve months from the date of service.

The Company regularly re-examines its previously established unpaid claims estimates based on actual claim submissions and other changes in facts and circumstances. As the liability estimates recorded in prior periods become more exact, the Company increases or decreases the amounts of the estimates and includes the changes in estimates in claims incurred in the period in which the changes are identified. Due to the uncertainties inherent in the claims estimation process, it is at least reasonably possible that the actual claims paid could differ materially from the amounts accrued in the accompanying balance sheets—statutory basis.

Revenue recognition

Premiums are recognized as earned on a monthly basis for the period the health care coverage is in effect. Premiums received in advance represent prepayments of premiums for future health care coverage.

Uncollected premiums primarily represent unpaid amounts earned from employer groups and individuals for health benefits. Provision is made for potential adjustments which arise as a result of a review by management or a third party.

The Company participates with other BlueCross and BlueShield plans in administering certain health care benefit plans of various national accounts. Administrative fees are generally recognized as earned and are recorded as a reduction of general and administrative expenses.

Certain claim payments, premium rates, administrative expense reimbursements and provider discounts are subject to review and potential retroactive adjustment by third parties. Reserves are established for potential obligations arising from such reviews. Management believes that any potential claims will not be materially different from the amounts recorded in the accompanying statutory basis financial statements.

Claims Incurred

Physician and institutional services are provided by medical providers to whom the Company pays fees based upon fee schedules. Claims incurred are recognized in the period in which members receive medical services. In addition to actual benefits paid, claims

NOTES TO FINANCIAL STATEMENTS

incurred include the impact of accruals for estimates of reported and unreported claims, which are unpaid as of the balance sheet date.

Federal Employee Program

The Company participates in the Federal Employee Health Benefits Program (FEHBP) with other BlueCross BlueShield plans. This program includes an experience-rated contract between the Office of Personnel Management (OPM) and the BlueCross BlueShield Association (BCBSA), which acts as an agent for the participating BlueCross BlueShield plans. In addition, each participating plan, including the Company, executes a contract with the BCBSA which obligates each participating plan to underwrite FEP benefits in its service area. Premium rates are developed by BCBSA and approved by OPM annually. These rates determine the funds that will be available to the participating BlueCross BlueShield plans to provide insurance to Federal employees that enroll with the BlueCross BlueShield FEHBP Plan. The excess of gross premiums for the life of the program over the charges for the life of the program on an accrual basis is considered the special reserve under the contract between OPM and BCBSA. Each year, OPM also allocates additional funds to a contingency reserve which may be utilized by the participating plans in the event that funds set aside from annual premiums are insufficient or fall below certain prescribed levels by OPM.

Funds available to each participating BlueCross BlueShield plan, including the special reserve and the contingency reserve, are held at the U.S. Treasury, including amounts unused from prior periods. Any funds which remain unused upon termination of the BCBSA contract after the claims run-out and reimbursement of allowable administrative expenses would be returned to OPM for the benefit of the FEHBP. The BCBSA contract renews automatically each year unless written notice of termination is given by either party.

In accordance with the contract, OPM holds the unused funds on behalf of the Company to provide funding for claims, administrative expenses, and other charges to the contract. The Company, along with other BlueCross BlueShield Plans who participate in the FEHBP contract, have an unrestricted right to draw funds being held in the special reserve for any valid claim or expense. The unaudited amounts being held in the special reserve are $3,522,412,000 and $2,356,287,000 as of December 31, 2009 and 2008, respectively. The unaudited amounts being held in the contingency reserve are $4,535,454,000 as of September 30, 2009 and $4,158,212,000 as of December 31, 2008. If the balance of the special reserve is exhausted or falls below certain prescribed levels, OPM will transfer funds from the contingency reserve to the special reserve. Amounts incurred in excess of the total reserves held at the U.S Treasury for the FEHBP would not be reimbursed to the Company.

Based upon formulas developed by the BCBSA, the Company has recorded its allocable share of the special reserve being held by OPM as an asset, with an equivalent amount recorded as a rate stabilization reserve. These amounts are $506,186,000 and $455,675,000 as of December 31, 2009 and 2008, respectively, which are included in health care and other amounts receivable and aggregate health policy reserves in the accompanying balance sheets—statutory basis.

FEP premiums earned were $1,532,181,000 and $1,493,793,000 for the years ended December 31, 2009 and 2008, respectively.

FEP Operations Center

Service Benefit Plan Administrative Services Corporation (SBP), a subsidiary of GHMSI, operates the FEP Operations Center under a contract with BCBSA. SBP is owned 90% by GHMSI and 10% by BCBSA. The arrangement contains automatic termination provisions upon the occurrence of certain triggering events.

SBP performs certain administrative functions as the national operations center for the FEP under its ten-year cost reimbursement contract with BCBSA. The reimbursement of allocable costs under this contract is allocated to CFMI and the Company and recorded as a reduction of general and administrative expenses. The FEP reimbursed the Company for costs incurred in connection with this agreement totaling $77,976,000 and $71,593,000 for the years ended December 31, 2009 and 2008, respectively.

Medicare Part D Benefits

Effective January 1, 2006, FirstCare, Inc. (FirstCare), a wholly-owned subsidiary of CFS Health Group, Inc. (CFS), which in turn is a wholly-owned subsidiary of CFMI, began serving as a plan sponsor offering Medicare Part D prescription drug insurance coverage under a contract with the Centers for Medicare and Medicaid Services (CMS). From January 1, 2006 to December 31, 2008, the Company, CFMI and BCBSD, Inc. (BCBSD) were operating under a quota-share reinsurance contract with FirstCare, which renewed annually unless terminated prior to renewal. The agreement relates to all Medicare Part D insurance policies written by FirstCare for individuals living in the Company's service areas. Effective January 1, 2009, BCBSD opted out of the reinsurance contract with FirstCare. Effective January 1, 2009, the business that FirstCare writes in BCBSD's service area was ceded to CFMI. Under the terms of the agreement, the Company assumes all underwriting risk on the business written in its and BCBSD's service areas. Therefore, all revenue and expenses related to the Company's members covered by the quota-share reinsurance contract are included in the accompanying statements of income and changes in capital and surplus—statutory basis for the years ended December 31, 2009 and 2008.

Under the Medicare Part D program, there are six separate elements of payment received by FirstCare during the plan year. These payment elements are as follows:

- CMS Premium – CMS pays a fixed monthly premium per member to FirstCare for the entire plan year.
- Member Premium – Additionally, each member pays a fixed monthly premium to FirstCare for the entire plan year.
- Low-Income Premium Subsidy – For qualifying low-income members, CMS pays some portion or all of the member's monthly premiums to FirstCare on the member's behalf.

NOTES TO FINANCIAL STATEMENTS

- Catastrophic Reinsurance Subsidy – CMS pays FirstCare a cost reimbursement estimate monthly to fund the CMS obligation to pay approximately 80% of the costs incurred by individual members in excess of the individual annual out-of-pocket maximum. A settlement is made based on actual cost experience subsequent to the end of the plan year.

- Low-Income Member Cost Sharing Subsidy – For qualifying low-income members, CMS pays on the member's behalf some portion or all of a member's cost sharing amounts, such as deductibles and coinsurance. The cost sharing subsidy is funded by CMS through monthly payments to FirstCare. FirstCare administers and pays the subsidized portion of the claims on behalf of CMS, and a settlement payment is made between CMS and FirstCare based on actual claims experience subsequent to the end of the plan year.

- CMS Risk-Share – If the ultimate per member per month benefit costs of any Medicare Part D regional plan varies more than 5.0 (2009 and 2008) percentage points above or below the level estimated in the original bid submitted by the plan and approved by CMS, there is a risk-share settlement between CMS and FirstCare that is settled subsequent to the end of the plan year. The risk-share adjustment, if any, is recorded as an adjustment to premiums earned and accrued retrospective premiums or other liabilities in FirstCare's statutory-basis financial statements.

The CMS Premium, the Member Premium, and the Low-Income Premium Subsidy represent payments for FirstCare's insurance risk coverage under the Medicare Part D program and therefore are recorded as premiums earned in the accompanying statutory-basis financial statements. Premiums earned are recognized ratably over the period in which eligible individuals are entitled to receive prescription drug benefits. FirstCare records premium payments received in advance of the applicable service period as premiums received in advances.

The Catastrophic Reinsurance Subsidy and the Low-Income Member Cost Sharing Subsidies represent cost reimbursements under the Medicare Part D program. FirstCare is fully reimbursed by CMS for costs incurred for these contract elements and, accordingly, there is no insurance risk to FirstCare.

2. Accounting Changes and Corrections of Errors

Changes in Accounting Principles

Accounting changes adopted to conform to the provisions of NAIC statutory accounting practices are reported as changes in accounting principles. The cumulative effect of any changes is reported as an adjustment to unassigned funds (surplus) in the period of the change in accounting principle. The cumulative effect is the difference between the amount of capital and surplus at the beginning of the period adopted and the amount of capital and surplus that would have been reported at that date if the new accounting principles had been applied retroactively for all prior periods.

In September 2009, the NAIC issued SSAP No. 43R *Loan-backed and Structured Securities* (SSAP No. 43R) a replacement to SSAP No. 43 *Loan-backed and Structured Securities* and SSAP No. 98 *Treatment of Cash Flows When Quantifying Changes in Valuation and Impairments*, an Amendment of SSAP No. 43 *Loan-backed and Structured Securities*. SSAP No. 43R provides that for loan-backed and structured securities for which (i) fair value is less than cost, (ii) the company does not intend to sell the securities, and (iii) the company has the intent and ability to retain the securities until recovery, the company should determine if there is a non-interest related impairment by comparing the present value of the cash flows expected to be collected to the amortized cost basis. If the cash flows expected to be collected is less than amortized cost, the security is impaired, and the difference is recorded as a realized loss in net income. The new cost basis of the security is the previous amortized cost basis, less the non-interest impairment recognized in net income.

If the fair value is less than amortized cost, and the company (i) has the intent to sell the security, or (ii) does not have the intent and ability to retain the security until recovery of its carrying value, the security is written down to fair value with the associated realized loss reported in net income. The amount of the OTTI recognized is the entire difference between the security's amortized cost basis and its fair value at the balance sheet date. The fair value at the time of the impairment becomes the security's new cost basis.

The Company adopted SSAP No. 43R effective July 1, 2009 and recorded an increase to surplus of $1,634,000, net of taxes, as of July, 1, 2009.

In December 2009, the NAIC issued SSAP No. 10R *Income Taxes – Revised, A Temporary Replacement of SSAP No. 10* (SSAP 10R). SSAP 10R requires a valuation allowance against gross deferred tax assets if it is more likely than not that some or all of the deferred tax assets will not be realized. Upon adoption of SSAP 10R, the Company determined that its deferred tax assets related to alternative minimum tax (AMT) credits would require a valuation allowance. As such, the Company has reduced their gross deferred tax assets (refer to Note 9 Income Taxes for additional information). Additionally, SSAP 10R allows for an election available to companies that meet certain Risk-Based-Capital levels to admit an increased amount of deferred tax assets in accordance with paragraph 10e. The Company has not made this election.

Correction of Error

During the second quarter of 2009, the Company corrected its accounting policy regarding nonadmitted assets and the recording of an accounts receivable allowance for doubtful accounts on a statutory accounting basis. In prior years, the Company maintained an accounts receivable allowance for doubtful accounts on a statutory accounting basis. The Company no longer maintains an allowance for doubtful accounts and nonadmits receivables according to the various NAIC SAPs. As a result of the correction noted above, the Company recorded an increase of $1,995,000 directly to surplus. This adjustment was comprised of reversing the allowance for doubtful accounts of $6,320,000 as of December 31, 2008, recording additional nonadmitted assets of $3,826,000 and decreasing the gross and net admitted deferred tax assets of $499,000.

3. Business Combinations and Goodwill

NOTES TO FINANCIAL STATEMENTS

Not applicable.

4. Discontinued Operations

Not applicable.

5. Investments

D. Loan-backed Securities

(1) The following table presents the admitted values and estimated fair values of the Company's loan-backed and asset-backed securities at December 31, 2009 and 2008 *(in thousands).*

	Admitted Value	Gross Unrealized Losses	Gross Unrealized Gains	Fair Value
December 31, 2009				
Government sponsored enterprise mortgage-backed securities	**$ 191,744**	**$ 756**	**$ 5,245**	**$ 196,233**
Residential mortgage-backed securities	**56,145**	**10,475**	**209**	**45,879**
Commercial mortgage-backed securities	**8,010**	**148**	**161**	**8,023**
Other asset-backed securities	**7,774**	**45**	**296**	**8,025**
Total bonds	**$ 263,673**	**$ 11,424**	**$ 5,911**	**$ 258,160**

	Admitted Value	Gross Unrealized Losses	Gross Unrealized Gains	Fair Value
December 31, 2008				
Government sponsored enterprise mortgage-backed securities	$ 197,787	$ 586	$ 5,428	$ 202,629
Residential mortgage-backed securities	101,906	12,642	289	89,553
Commercial mortgage-backed securities	8,351	956	–	7,395
Other asset-backed securities	5,074	365	84	4,793
Total bonds	$ 313,118	$ 14,549	$ 5,801	$ 304,370

(2) The Company records its investment in loan-backed securities using the prospective adjustment method. Prepayment assumptions for single and multi-class mortgage-backed/assets-backed securities are obtained from broker survey values. The company uses IDC to determine the market value for such securities.

(3) See Note 20H *Subprime Related Risk Exposure*

(4) Effective July 1, 2009, the Company adopted SSAP No. 43R as discussed in *Note 2 Accounting Changes and Corrections of Errors*. For the year ended December 31, 2009, the Company recognized $3,346,000 of OTTI in mortgage-backed securities that the Company has the intent to hold but does not expect to recover the entire amortized cost basis of the securities (present value of cash flows expected to be collected is less than the amortized cost basis of the securities).

(5) The following tables list each security at the CUSIP level, currently held by the Company, where the present value of cash flows expected to be collected is less than the amortized cost basis as of the respective quarter-end *(in thousands)*:

For the quarter ended September 30, 2009

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CUSIP	Book/Adjusted Carrying Value Amortized Cost Before Current Period OTTI	Projected Cash Flows	Recognized OTTI	Amortized Cost After OTTI	Fair Value
02151A-AJ-9	$ 1,015	$ 608	$ 407	$ 608	$ 608
Total for the quarter ended September 30, 2009	**$ 1,015**	**$ 608**	**$ 407**	**$ 608**	**$ 608**

For the quarter ended December 31, 2009

CUSIP	Book/Adjusted Carrying Value Amortized Cost Before Current Period OTTI	Projected Cash Flows	Recognized OTTI	Amortized Cost After OTTI	Fair Value
02151A-AJ-9	$ 621	$ 400	$ 221	$ 400	$ 400
02148Y-AC-8	2,618	2,241	377	2,241	2,260
362334-CN-2	4,813	4,605	208	4,605	3,990
87222E-AC-2	2,545	2,076	469	2,076	2,073
87222P-AC-7	9,986	8,777	1,209	8,777	4,927
Total for the quarter ended December 31, 2009	**$ 20,583**	**$ 18,099**	**$ 2,484**	**$ 18,099**	**$ 13,650**

(6) The following table shows the gross unrealized losses and fair value of the Company's mortgage-backed securities with unrealized losses that are not deemed to be other than temporarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2009 and 2008 (*in thousands*).

	Fair Value < 1 Year	Unrealized Losses < 1 Year	Fair Value > 1 Year	Unrealized Losses > 1 Year	Total Unrealized Losses
December 31, 2009					
Government sponsored enterprise mortgage-backed securities	**18,572**	**207**	**57,331**	**549**	**756**
Residential mortgage-backed securities	**13,184**	**3,656**	**23,179**	**6,819**	**10,475**
Commercial mortgage-backed securities	**1,701**	**144**	**1,043**	**4**	**148**
Other asset-backed securities	**–**	**–**	**3,065**	**45**	**45**
Total bonds	**$ 33,457**	**$ 4,007**	**$ 84,618**	**$ 7,417**	**$ 11,424**

	Fair Value < 1 Year	Unrealized Losses < 1 Year	Fair Value > 1 Year	Unrealized Losses > 1 Year	Total Unrealized Losses
December 31, 2008					
Government sponsored enterprise mortgage-backed securities	16,858	286	6,154	300	586
Residential mortgage-backed securities	38,604	7,784	15,339	4,858	12,642
Commercial mortgage-backed securities	4,561	614	2,834	342	956
Other asset-backed securities	1,785	115	1,609	250	365
Total bonds	$ 61,808	$ 8,799	$ 25,936	$ 5,750	$ 14,549

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(7) See Note 1 *Accounting Policy – Investments*

(8) The Company was able to estimate fair value in accordance with SSAP No. 27.

E. Repurchase Agreements and/or Securities Lending Transactions

Prior to 2009, the Company participated in securities lending transactions whereby the Company lent investments in exchange for collateral. The Company had no securities on loan as of December 31, 2009 and 2008; however, it intends to re-establish its securities lending program at some point in the future.

6. Joint Ventures, Partnerships and Limited Liability Companies

The Company has a direct investment in a limited partnership. The Company has no investments in Limited Partnership that exceed 10% of its admitted assets.
The Company did not recognize any impairment write down for its investment in limited partnership during the statement periods.

7. Investment Income

A. Investment income due and accrued is excluded from surplus when amounts are over 90 days past due or collection is uncertain.

B. No amount of investment income due and accrued was non-admitted and excluded from surplus as of December 31, 2009 and 2008.

8. **Derivative Instruments**

Not applicable.

9. Income Taxes

The components of the net deferred tax asset recognized in the Company's Assets, Liabilities, and Capital and Surplus are as follows:

	Dec. 31, 2009	Dec. 31, 2008
Total of gross deferred tax assets (DTA)	$46,526,196	$147,802,812
Total of deferred tax liabilities (DTL)	(5,636,172)	(2,243,465)
Net deferred tax asset	40,890,024	145,559,347
Deferred tax asset nonadmitted	(23,563,646)	(136,664,227)
Net admitted deferred tax asset	17,326,378	8,895,120
Decrease (increase) in nonadmitted asset	$113,100,581	$(132,890,864)

In accordance with SSAP 10-R the below represents the components of the net DTA and DTL recognized in a GHMSI's financial statement by tax character.

	Capital	Operating	TOTAL
Total of gross deferred tax assets	7,506,042	162,216,004	169,722,046
Less: AMT Credits Valuation Allowance	0	(123,195,850)	(123,195,850)
Adjusted gross deferred assets	7,506,042	39,020,154	46,526,196
Gross deferred tax liabilities	(4,775,984)	(860,188)	(5,636,172)
Net deferred tax asset	2,730,058	38,159,966	40,890,024
Deferred tax asset nonadmitted	0	(23,563,646)	(23,563,646)
Net admitted deferred tax asset	2,730,058	14,596,320	17,326,378

The provision for federal income taxes incurred is different from that which would be obtained by applying the statutory Federal income tax rate to income before income taxes. The significant items causing this difference are as follows: principally as a result of 833(b) deduction, mark-up for intercompany services, and valuation allowance changes.

The Company has accumulated Alternative Minimum Tax (AMT) credits of approximately $123,195,900 December 31, 2009. The credits can be used, in certain circumstances, to offset future regular tax.

The Company is included in a consolidated federal income tax return of CareFirst, Inc. The Company has a written agreement, which sets forth the manner in which the total combined federal income tax is allocated to each entity, which is a party to the consolidation. The agreement calls for an allocation based on the Company's pre-tax income after affecting for permanent differences at the alternative minimum tax rates. The federal tax allocation for both 2009 and 2008 was 20 percent of pre-tax income after permanent differences. These amounts are included in provision for income taxes in the accompanying statements of revenue and expenses --statutory basis.

Pursuant to this agreement, the Company has the enforceable right to recoup federal income taxes paid in prior years in the event of future net

NOTES TO FINANCIAL STATEMENTS

losses, which it may incur, or to recoup its net losses carried forward as an offset to future net income subject to federal income taxes.

Historically, the Company along with CFMI has provided the majority of the operating and administrative services, including claims processing to CFBC. These services were charged to CFBC based on the costs incurred by the Company. In 2008, the Company performed a review and analysis of certain intercompany transactions with CFBC for the year ended December 31, 2008. The analysis identified services provided by the Company that should include a profit mark-up on the costs incurred that should be charged to CFBC. The Company performed this review of its intercompany transactions after the 2007 financial statements were issued, but prior to the filing of the 2007 tax return. Based on this analysis, the Company increased its taxable income by $5,667,000 for the year ended December 31, 2009 and for income tax purposes only, $5,541,000 for the year ended December 31, 2008. The effects of the adjustments for both years are reflected in the Company's provision for income taxes in the accompanying statements of income and changes in capital and surplus—statutory basis. For statutory purposes, the Company did not reflect these amounts in the financial statements, for the year ended December 31, 2008 which results in an increase to the Company's effective tax rate for that year.

10. Information Concerning Parent, Subsidiaries and Affiliates

Group Hospitalization and Medical Services, Inc. (GHMSI or the Company) is a not-for-profit company that provides a comprehensive array of health insurance and managed care products and services primarily through indemnity health insurance, health maintenance organization coverage and health benefits administration. Other products and services include preferred provider and point-of-service networks, third-party administrator services and other managed care services. These products and services are provided to individuals, businesses and governmental agencies primarily in the Washington, D.C. metropolitan area.

The Company and CareFirst of Maryland, Inc. (CFMI) are both affiliates of a not-for-profit parent company, CareFirst, Inc. (CFI). These affiliates do business as CareFirst BlueCross BlueShield. The Company and CFMI also hold a 40% and 60% interest, respectively, in a health maintenance organization subsidiary, CareFirst BlueChoice, Inc. (CFBC). Since control over CFBC operations is vested in CFI, the Company has determined that neither the Company nor CFMI exercise control over CFBC.

The Company holds an investment in The GHMSI Companies, Inc. (GHMSI Companies), a downstream noninsurance holding company, with a carrying value of $205,253,000 and $179,364,000 at December 31, 2009 and 2008, respectively. The GHMSI Companies wholly-own Capital Area Services Company, Inc., National Capital Administrative Services, Inc., National Capital Insurance Agency, Inc. and own 40% of CFBC. The 2009 and 2008 financial statements of the GHMSI Companies have not been subject to an audit, so the value reported on the balance sheet—statutory basis is limited to the values reported in the audited financial statements of GHMSI in accordance with SSAP No. 97, *Investments in Subsidiary, Controlled, and Affiliated Entities, A Replacement of SSAP No. 88*.

As of December 31, 2009 and 2008, the Company's investment in the GHMSI Companies exceeded 10% of the Company's admitted assets. Financial information for the GHMSI Companies is summarized as follows *(in thousands)*:

	December 31 2009	December 31 2008
Investments	**$ 206,236**	$ 170,545
Other assets	**9,503**	17,522
Total admitted assets	**$ 215,739**	$ 188,067
Other liabilities	**$ 10,486**	$ 8,703
Capital and surplus	**205,253**	179,364
Total liabilities and capital and surplus	**$ 215,739**	$ 188,067

The GHMSI Companies had no income statement activity for the years ended December 31, 2009 and 2008.

During 2009 and 2008, the Company incurred certain costs on behalf of CFMI and its subsidiaries, including salaries, claims processing expenses, and professional fees. Similarly, certain costs were incurred by CFMI and its subsidiaries on behalf of the Company. These amounts were allocated between the companies based on relevant statistical measures. Net charges to the Company for services performed by CFMI and its subsidiaries were $109,170,000 and $95,767,000 during the years ended December 31, 2009 and 2008, respectively.

The Company has an operating relationship with its subsidiaries and affiliates, whereby the Company provides administrative and corporate services which are allocated to the subsidiaries and affiliates under management agreements. Total allocations to the subsidiaries and affiliates, excluding CFMI and its subsidiaries and FirstCare, for all services provided by the Company were approximately $45,902,000 and $39,572,000 during the years ended December 31, 2009 and 2008, respectively. These allocations are netted against general and administrative expenses in the accompanying statements of income and changes in capital and surplus—statutory basis.

The Company also has an operating relationship with FirstCare, whereby the Company provides administrative and corporate services which are allocated to FirstCare under management agreements. Total allocations to FirstCare for all services provided by the Company were approximately $1,571,000 and $1,189,000 during the years ended December 31, 2009 and 2008, respectively. Additionally, in accordance with the Company's quota-share reinsurance contract with FirstCare, the Company assumed $1,596,000 and $1,523,000 of general and administrative expenses ceded by FirstCare during the years ended December 31, 2009 and 2008, respectively.

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For certain fully insured point-of-service health care programs, the Company bears all of the out-of-network (indemnity) underwriting risk and CareFirst BlueChoice bears the in-network (HMO) underwriting risk. Cost of care for these products is charged directly to the Company and CareFirst BlueChoice based upon the nature of the claims incurred. Premiums on these health care programs are allocated between the Company and CareFirst BlueChoice based on actual underwriting results such that the underwriting gain of the health care programs, as a percentage of premiums earned, is shared equally between the two companies.

On January 16, 1998, CFI issued a subordinated surplus note with the Company for $333,000 and with GHMSI for $167,000. The notes are unsecured and bear interest at 6% per annum, payable in arrears commencing on the initiation date. No payments of principal or interest shall be made on the notes unless and until CFI has sufficient realized earned surplus to make such payment, after providing for its minimum required surplus, all required reserves and other liabilities. In December 2007, the notes were amended to extend the maturity date from January 16, 2008 to January 16, 2018. Principal on these notes, if not paid sooner, shall be due and payable on January 16, 2018. Both interest and principal payments require the prior approval of the MIA.

At December 31, 2009 the Company reported $4,559,000 and $38,830,349 as amounts due from and due to affiliates, respectively. These amounts are settled monthly.

11. Debt

None

12. Retirement Plans and Other Post-retirement Benefit Plans

Prior to December 31, 2002, the Company maintained a qualified noncontributory defined benefit retirement plan covering substantially all full-time employees (the GHMSI Plan). Effective December 31, 2002, the GHMSI Plan merged with a qualified noncontributory defined benefit retirement plan maintained by CFMI (the CFMI Plan) to become the CareFirst, Inc. Retirement Plan (the CFI Plan). Although CFI merged the CFMI and GHMSI plans, it has committed to maintain separate recordkeeping of plan assets and benefit obligations so that it will comply with certain regulatory restrictions that apply to CFMI and the Company. Consistent with the standards for multiple-employer plan accounting, the Company has accounted for its net pension obligation as if the plans remained separate.

The annual contributions are not less than the minimum funding standards set forth in the Employee Retirement Income Security Act of 1974, as amended. The CFI Plan provides for eligible employees to receive benefits based principally on years of service with the Company and a percentage of certain compensation prior to normal retirement.

The Company also has nonqualified supplemental retirement benefit plans covering certain officers, which provide for eligible employees (and former employees) to receive additional benefits based principally on compensation and years of service. These plans provide for incremental benefit payments from the Company’s funds so that total benefit payments equal amounts that would have been payable from the Company’s principal retirement plans if it were not for limitations imposed by income tax regulations.

The Company provides certain health care benefits for retired employees. Substantially all employees become eligible for those benefits if they have at least ten years of service, are at least age 55, and have the Company’s medical benefit coverage at the time of termination or retirement. The Company’s postretirement benefit program provides for a specific credit amount, which may be used to purchase health insurance upon retirement. The credit amount is based upon the retiree’s age and years of service with the Company. The Company funds postretirement benefits as benefits are paid.

In November 2007, the Company approved a freeze to the Plan, effective January 1, 2009, whereby employees hired on or after January 1, 2009, will no longer be eligible to participate in the Plan. These employees will participate in an enhanced 401(k) program.

The Company uses a December 31 measurement date for determining benefit obligations and fair value of plan assets.

A summary of assets, obligations and assumptions of the Pension Plans, which include the qualified and nonqualified pension plans described above, and the Other Postretirement Benefit Plan are as follows at December 31 (in thousands):

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	Pension Benefits		Other Postretirement Benefits	
	2009	2008	2009	2008
Change in projected benefit obligations				
Benefit obligations at beginning of year	**$ 247,432**	$ 232,775	**$ 17,741**	$ 17,458
Service cost	**7,746**	7,235	**1,383**	1,267
Interest cost	**15,131**	14,260	**1,043**	1,030
Plan change	**–**	1,719	**–**	(354)
Actuarial loss (gain)	**17,663**	1,995	**189**	(397)
Benefits paid	**(10,670)**	(10,552)	**(922)**	(1,263)
Benefit obligations at end of year	**$ 277,302**	$ 247,432	**$ 19,434**	$ 17,741
Change in plan assets				
Fair value of plan assets at beginning of year	**$ 219,384**	$ 253,358	**$ –**	$ –
Actual return on plan assets	**51,249**	(61,451)	**–**	–
Employer contribution	**4,828**	38,029	**922**	1,263
Benefits paid	**(10,670)**	(10,552)	**(922)**	(1,263)
Fair value of plan assets at end of year	**$ 264,791**	$ 219,384	**$ –**	$ –
Funded status	**$ (12,511)**	$ (28,048)	**$ (19,434)**	$ (17,741)
Transition (asset) liability not yet recognized	**(39,228)**	(41,361)	**1,065**	1,420
Unamortized prior service cost	**1,469**	1,660	**–**	–
Unrecognized net loss (gain)	**100,468**	113,683	**(1,596)**	(1,919)
Prepaid pension assets or (accrued) liabilities prior to additional liability	**50,198**	45,934	**(19,965)**	(18,240)
Additional liability	**(7,382)**	(23,175)	**–**	–
Prepaid pension assets or (accrued) liabilities	**$ 42,816**	$ 22,759	**$ (19,965)**	$ (18,240)

	Pension Benefits		Other Postretirement Benefits	
	2009	**2008**	**2009**	**2008**
Accumulated benefit obligations (vested portion)	**$ 274,607**	$ 245,481	**$ 17,340**	$ 16,197
Accumulated benefit obligations (non-vested portion)	**$ 400**	$ 447		
Benefit obligations (non-vested portion)			**$ 11,877**	$ 10,128

The estimated transition asset, net actuarial loss and prior service cost for the defined benefit pension plans that will be amortized into net periodic benefit costs over the next fiscal year are $(2,650,000), $5,231,000 and $190,000, respectively.

The estimated transition liability for other postretirement benefit plans that will be amortized from capital and surplus—statutory basis into net periodic benefit costs over the next fiscal year is $355,000.

An additional pension liability is required when the actuarial present value of accumulated benefits obligation exceeds plan assets and accrued pension liabilities. As of December 31, 2009, and 2008, additional liabilities of $7,382,000 and $23,175,000, respectively, were recorded. In connection with the additional liabilities, intangible pension assets of $449,000 and $289,000, respectively, were recorded and non-admitted.

NOTES TO FINANCIAL STATEMENTS

	Pension Benefits		Other Postretirement Benefits	
	2009	**2008**	**2009**	**2008**
Components of net periodic benefit cost (in thousands)				
Service cost	**$ 7,746**	$ 7,235	**$ 1,383**	$ 1,267
Interest cost	**15,132**	14,260	**1,043**	1,030
Expected return on plan assets	**(21,655)**	(20,427)	**–**	–
Amortization of unrecognized transition (asset) obligation	**(2,133)**	(1,178)	**355**	355
Amortization of prior service cost	**190**	190	**–**	–
Amount of recognized losses	**1,285**	419	**(135)**	–
Total net periodic benefit cost	**$ 565**	$ 499	**$ 2,646**	$ 2,652

Weighted-average assumptions for all plans are as follow as of December 31:

	Pension Benefits		Other Postretirement Benefits	
	2009	**2008**	**2009**	**2008**
Discount rate – benefit obligation	**5.50%**	6.50%	**5.75%**	6.50%
Discount rate – net benefit cost	**6.50%**	6.25%	**6.50%**	6.25%
Rate of compensation increase	**4.50%**	4.50%	**N/A**	N/A
Expected long-term rate of return on plan assets	**8.00% / N/A***	8.50% / N/A*	**N/A**	N/A
Annual rate of increase in the per capita cost of covered health care benefits	**N/A**	N/A	**6.00%**	6.00%

* As of December 31, 2009 and 2008, the expected return on plan assets is 8.00% and 8.50%, respectively, for qualified pension benefits and N/A for nonqualified pension benefits. The Company contributes to the nonqualified pension plans as benefits are paid.

The discount rates used to determine the Company's pension and other postretirement plan obligations were based on a hypothetical Aa yield curve represented by a series of annualized individual discount rates. Each bond issue underlying the yield curve is required to be noncallable and have a rating of Aa or better by Moody's Investor Service, Inc. or a rating of AA or better by Standard & Poor's. The yields are used to discount future pension and postretirement benefit plan cash flows at an interest rate specifically applicable to the timing of each respective cash flow. The sum of these discounted cash flows are totaled into a single present value and an equivalent weighted-average discount rate is calculated by imputing the singular interest rate that equates the total present value of the stream of future cash flows. This resulting interest rate, rounded, is used by the Company as its discount rate.

An important factor in determining the pension expense is the assumption for expected long-term rate of return on plan assets. The Company uses a total portfolio return analysis in the development of our assumption. Factors such as past market performance, the long-term relationship between fixed maturity and equity securities, interest rates, inflation and asset allocations are considered in the assumption. The assumption includes an estimate of the additional return expected from active management of the investment portfolio. Peer data and historical returns are also reviewed for appropriateness of the selected assumption.

The expected long-term rate of return for the plan's total assets is based on the expected return of each of the investment categories, weighted based on the median of the target allocation for each class. The key objective of the pension asset portfolio is to meet the assumed actuarial rate of return while maintaining a diversified asset allocation. Equity securities are expected to return 8% to 12% over the long-term, while cash and fixed maturity securities are expected to return between 4% and 6%. Based on historical experience, the CareFirst, Inc. Retirement Committee expects that the Plan's active asset managers will provide a modest (0.5% – 1.0% per annum) premium to their respective market benchmark indices.

The Company's pension investment policy, as established by the CareFirst, Inc. Retirement Committee, is to provide for growth of capital with a moderate level of volatility by investing assets through adequate asset diversification per the target allocations stated below. Plan assets include a diversified mix of investment grade fixed maturity securities, equity securities and alternatives across a range of sectors and levels of capitalization to maximize the long-term return for a prudent level of risk. The assets are reallocated as needed to meet the target allocations and achieve the target return. The investment policy is reviewed on a quarterly basis, under the advisement of a certified investment advisor, to determine if the policy should be changed. The pension plan weighted-average asset allocations by asset category are as follows:

NOTES TO FINANCIAL STATEMENTS

	Target Allocation	December 31 2009	December 31 2008
Domestic equity securities	30% – 50%	**37 %**	32 %
International equity securities	15% – 25%	**19**	17
Emerging markets equity securities	0% – 10%	**7**	2
Real estate	0% – 10%	**3**	6
Fixed maturity securities	25% – 35%	**33**	25
Cash and cash equivalents	Residual	**1**	18
Total		**100 %**	100 %

As shown above, the Company's actual weighted-average asset allocations were not within the target allocations for certain asset categories at December 31, 2008. The Company funded the qualified pension plan in December 2008, but did not invest the cash and cash equivalents prior to December 31, 2008. The assets were reallocated to meet target asset allocations in the first week of 2009.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid from the above pension plans and other postretirement benefit plan for the years ending December 31(in thousands):

	Pension Benefits	Other Postretirement Benefits
2010	$ 21,358	$ 1,422
2011	19,849	1,576
2012	20,313	1,716
2013	20,112	1,837
2014	21,422	1,963
2015 through 2019	91,955	11,897
	$ 195,009	$ 20,411

The Company expects to make contributions of $742,000 and $1,422,000, respectively, to the pension benefit plans and the postretirement benefits plan during 2010.

In addition, the Company sponsors a 401(k) plan for the benefit of all eligible employees. The Company contributes to this plan based on a percentage of employee contributions and recognized expenses of $1,620,000 and $1,437,000 for the years ended December 31, 2009 and 2008, respectively.

Assumed healthcare cost trend rates have a significant effect on the amounts reported for healthcare plans. A one percentage point change in assumed healthcare cost trend rates would have the following effects (*in thousands)*:

	1% Increase	1% Decrease
Effect on total service and interest cost	$ 32	$ (28)
Effect on postretirement benefit obligations	594	(518)

13. Capital and Surplus, Shareholders' Dividend Restrictions and Quasi-Reorganizations

The Company has no shares authorized, issued or outstanding. The Company has no preferred stock outstanding.

The portion of unassigned funds (surplus) represented by cumulative net unrealized gains is $167,198,000.

14. Contingencies

CFI and its affiliates have employment contracts and other benefit arrangements with certain executives which contain provisions that could trigger the acceleration of certain benefits and/or payment of additional compensation. Such acceleration occurs upon termination of employment without cause or "good reason" as defined in the contract. Additional acceleration occurs if said termination occurs "in connection with a change of control." Potential incremental payments related to sums owed for a termination in connection with a change of control have not been accrued as of December 31, 2009 or 2008, as the Company believes that the relevant triggering events have not occurred.

In December 2008, the District of Columbia's City Council Committee on Public Services and Consumer Affairs (D.C. City Council) passed legislation giving the District of Columbia's Insurance Commissioner (Commissioner) authority to cap GHMSI's statutory reserves attributable to the District of Columbia and compel the offering of an expanded open enrollment product in the District of Columbia. Pursuant to this law a hearing was held in September 2009 by the Commissioner to inquire into the appropriateness of GHMSI's reserve level. A decision is expected by the Commissioner in the first half of 2010.

NOTES TO FINANCIAL STATEMENTS

Various other lawsuits, including class action lawsuits and other claims, occur in the normal course of business and are pending against the Company. The Company records accruals for such matters when a loss is deemed to be probable and estimable. Management, after consultation with legal counsel, is of the opinion that the lawsuits and other claims, when resolved, will not have a material adverse effect on the accompanying statutory-basis financial statements; however, there can be no assurance in this regard.

In the jurisdictions in which the Company is licensed to conduct business, associations have been created for the purpose, among others, of protecting insured parties under health insurance policies. The Company is contingently liable for assessments in any calendar year, in order to provide any required funds to carry out the power and duties of the associations.

The Company, through CFI, operates under licensing agreements with BCBSA, whereby the Company uses the service marks of BCBSA in the course of its business. The Company files periodic reports with BCBSA.

CFMI and the Company have entered into an intercompany agreement that requires CFMI or the Company, or their respective subsidiaries, to provide the financial resources necessary to satisfy the respective regulatory reserve requirement, subject to specific limitations, if either CFMI or the Company or their respective subsidiaries fail to meet or maintain their respective regulatory reserve requirement as required by law, or if such transfer of financial resources is needed to satisfy any other legally enforceable obligation.

During 2008, the Company made a commitment to fund $7,500,000 into the Blue Venture Fund Limited Partnership. The amount of the unfunded commitment was $5,874,000 at December 31, 2009. The Company anticipates that the additional amount will be invested in the limited partnership over the next four years.

The Company's professional liability coverage is on a claims-made basis. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during its term, but reported subsequently, will be uninsured. The claims-made policy has been renewed through November 1, 2010.

CFI has a commitment for a credit facility with a commercial bank under which certain of its affiliates, including the Company, may borrow up to a maximum amount of $60,000,000. There have been no draws made on this line of credit during 2009 or 2008.

The Company insures individuals who are qualified Medicare beneficiaries. Medicare law identifies the primary payer and secondary payer of claims when individuals are insured by both the Company and Medicare. Principally as a result of information systems programming errors, the Company incorrectly paid certain claims in years prior to 2009 as the secondary payer rather than as the primary payer. The issues were communicated to the Centers for Medicare and Medicaid Services (CMS) in May 2009. The Company has implemented corrective measures to (1) correctly identify Medicare beneficiaries that should be paid primary and (2) modify information systems to correctly adjudicate claims on behalf of Medicare beneficiaries. Based on its interpretation of Medicare law, the Company believes it is liable for improperly processed claims for the period from January 1, 2006 to December 31, 2008. The Company has provided CMS with the data of the incorrectly paid claims and offered to settle its obligations to CMS for approximately $19 million. Accordingly, CFI has recorded a liability of $19,044,000 at December 31, 2009 for this proposed settlement, of which $9,420,000 has been recorded by the Company, which is included in general expenses due or accrued in the accompanying balance sheets—statutory basis. The settlement remains subject to government approval. While there can be no assurances that the settlement will be accepted, or that CMS will accept the Company's legal interpretation that Medicare law limits its liability in this matter to the Company's proposed settlement amount, the Company's management, after consultation with legal counsel, does not believe the final resolution of this matter will result in additional material liabilities to the Company.

15. Leases

The Company leases certain administrative facilities and equipment under operating leases. Some of these lease agreements contain escalation clauses for increases in real estate taxes and operating costs over base year amounts. These leases expire on various dates, with renewal options available on many of these leases.

Future noncancelable minimum payments for leases for which the Company is obligated are as follows as of December 31, 2009 *(in thousands)*:

2010	$	9,667
2011		9,723
2012		9,617
2013		5,933
2014		444
Thereafter		3,825
Total minimum payments	$	39,209

Rent expense for operating leases, net of amounts allocated to affiliates, was $11,384,000 and $11,121,000 for the years ended December 31, 2009 and 2008, respectively.

16. Information About Financial Instruments With Off-Balance Sheet Risk And Financial Instruments With Concentrations of Credit Risk

Not applicable.

NOTES TO FINANCIAL STATEMENTS

17. Sale, Transfer and Servicing of Financial Assets and Extinguishments of Liabilities

Not applicable.

18. Gain or Loss to the Reporting Entity from Uninsured A&H Plans and the Uninsured Portion of Partially Insured Plans

The results from operations of uninsured ASC plans and the uninsured portion of partially insured plans was as follows for the years ended December 31, 2009 and 2008 *(in thousands)*:

	2009	2008
Gross reimbursement for medical costs incurred	$ 1,085,324	$ 1,015,216
Gross administrative fees accrued	70,338	75,352
Gross expenses incurred	(1,179,400)	(1,103,837)
Operating loss, before stop loss	(23,738)	(13,269)
Stop loss, net	6,818	5,926
Proforma operating gain (loss)	$ (16,920)	$ (7,343)

The stop loss amount reported represents stop loss written for the ASC business shown above. For the year-end December 31, 2009, GHMSI ceded an ASC underwriting loss of $7,280,000 to CFMI and assumed an ASC underwriting gain of $6,721,000 from CFMI for a net underwriting gain of $559,000. For the year-end December 31, 2008, GHMSI ceded an ASC underwriting loss of $4,191,000 to CFMI and assumed an ASC underwriting gain of $2,854,000 from CFMI for a net underwriting gain of $7,045,000.

19. Direct Premium Written/Produced by Managing General Agents/Third Party Administrators

Not applicable.

20. Other Items add subprime mortgages

(A) Extraordinary Items

Not applicable

(B) Troubled Debt Restructuring: Debtors

Not applicable

(C) Other Disclosures

Not applicable

(D) Uncollectible Balances

Not applicable

(E) Business Interruption Insurance Recoveries

Not applicable

(F) State Transferable Tax Credits

Not applicable

(G) Hybrid Securities

Not applicable

(H) Subprime Related Risk Exposure

(1) The Company categorizes mortgage securities with an average FICO score of less than 675 (credit score) as a subprime mortgage security. The Company has no subprime mortgage securities as of December 31, 2009.

(2) The Company does not engage in mortgage lending and therefore has no direct exposure through investments in subprime mortgage loans.

(3) The Company has no exposure in subprime mortgage lending through its fixed maturity and equity investments.

21. Events Subsequent

There have been no events occurring subsequent to the close of the books or accounts for this statement that would have a material effect on the financial condition of the Company.

22. Reinsurance

NOTES TO FINANCIAL STATEMENTS

The Company entered into a quota-share reinsurance contract with FirstCare, a plan sponsor offering Medicare Part D prescription drug insurance coverage (See Note 1C Accounting Policy – Medicare Part D Benefits). The Company assumed risk premiums in the amount of $6,540,000 and $6,624,000, and incurred an underwriting loss in the amount of $893,000 and $546,000, for the years ended December 31, 2009 and 2008, respectively, as a result of the quota-share reinsurance contract with FirstCare.

Certain business has been written by CFMI and GHMSI which represents contracts outside the historic CFMI and GHMSI service areas (cross-jurisdictional sales). In 2006, the Boards of CFI, CFMI and GHMSI approved redistribution of earnings between CFMI and GHMSI related to cross-jurisdictional sales. The income from operations from this cross-jurisdictional business would be transferred via a quota share reinsurance contract from the company that earned them to the company in whose service area they were earned. The Company received regulatory approval for these earnings redistributions, effective January 1, 2008. The Company remains obligated for amounts ceded in the event that CFMI does not meet its obligations. As a result of this reinsurance agreement, the following amounts were assumed from and ceded to CFMI (*in thousands*):

	Year Ended December 31 2009	2008
Premiums assumed	$ 65,463	$ 68,439
Premiums ceded	(410,260)	(386,713)
Premiums, net	(344,797)	(318,274)
Cost of care assumed	54,235	53,934
Cost of care ceded	(337,211)	(317,320)
Cost of care, net	(282,976)	(263,386)
General and administrative expenses ceded, net	(58,905)	(55,601)
Net loss (assumed) ceded	$ (2,916)	$ 713

23. Retrospectively Rated Contracts

The Company maintains certain retrospectively rated contracts. For these contracts, the Company estimates retrospective premium adjustments for certain group contracts that contain these provisions. Estimates are made utilizing underwriting rules and experience rating practices that are consistent with other underwritten contracts. Accrued retrospective premiums are recorded through written premium. The amount of net premiums written that was subject to retrospective rating features were $22,141,000 and $23,904,000, which represented 1.2% and 1.3% of the total net premiums written during 2009 and 2008, respectively.

24. Change in Incurred Claims and Claim Adjustment Expenses

As of December 31, 2009, $241,075,000 has been paid for incurred claims attributable to insured events for prior years. Reserves remaining for prior years are now $5,319,000 as a result of re-estimation of unpaid claims and unpaid claims adjustment expenses. Therefore, there has been a $25,203,000 favorable prior year development since December 31, 2008 to December 31, 2009. Original estimates are increased or decreased as additional information becomes known regarding individual claims.

25. Intercompany Pooling Arrangements

Not applicable.

26. Structured Settlements

Not applicable

27. Health Care Receivables

Pharmaceutical Rebates

Pharmacy Rebates receivable are based on pharmacy utilization during the quarter as well as past experience of rebates received.

Quarter	Estimated Pharmacy Rebates as Reported on Financial Statements	Pharmacy Rebates as Invoice/ Confirmed	Actual Rebates Collected Within 90 Days of Invoicing/ Contractual Due Date	Actual Rebates Collected within 91-180 Days of Invoicing/ Contractual Due Date	Actual Rebates Collected More Than 180 days After Invoicing/ Contractual Due Date
12/31/2009	$6,136,209	$6,136,209	$ –	$ –	$ –
9/30/2009	6,136,209	6,136,209	2,251,978	–	–
6/30/2009	6,132,159	6,132,159	6,122,684	78	–
3/31/2009	5,832,120	5,832,120	5,786,374	14,159	163
12/31/2008	$5,775,874	$5,775,874	$5,715,411	$ 126	$ –
9/30/2008	5,659,431	5,659,431	5,572,575	(4,754)	–
6/30/2008	5,875,909	5,875,909	5,468,967	294,889	7,270
3/31/2008	5,324,394	5,324,394	5,155,339	70,247	160

NOTES TO FINANCIAL STATEMENTS

12/31/2007	$ 5,477,373	$ 5,477,373	$ 3,571,981	$ 1,954,286	$ –
9/30/2007	5,804,812	5,804,812	4,811,309	957,268	–
6/30/2007	5,414,574	5,414,574	5,161,900	251,205	3,902
3/31/2007	5,074,760	5,074,760	5,051,351	12,718	(21,866)

28. Participating Policies

Not applicable

29. Premium Deficiency Reserve

Not applicable

30. Salvage and Subrogation

The following discloses the estimated salvage and subrogation used in computing the Company's unpaid claims liability (in thousands):

Year incurred	
2008	$1,764
2009	$1,718

GENERAL INTERROGATORIES

PART 1 - COMMON INTERROGATORIES

GENERAL

1.1 Is the reporting entity a member of an Insurance Holding Company System consisting of two or more affiliated persons, one or more of which is an insurer? Yes [X] No [ ]

1.2 If yes, did the reporting entity register and file with its domiciliary State Insurance Commissioner, Director or Superintendent, or with such regulatory official of the state of domicile of the principal insurer in the Holding Company System, a registration statement providing disclosure substantially similar to the standards adopted by the National Association of Insurance Commissioners (NAIC) in its Model Insurance Holding Company System Regulatory Act and model regulations pertaining thereto, or is the reporting entity subject to standards and disclosure requirements substantially similar to those required by such Act and regulations? Yes [X] No [ ] N/A [ ]

1.3 State Regulating? District of Columbia

2.1 Has any change been made during the year of this statement in the charter, by-laws, articles of incorporation, or deed of settlement of the reporting entity? Yes [X] No [ ]

2.2 If yes, date of change: 04/29/2009

3.1 State as of what date the latest financial examination of the reporting entity was made or is being made. 12/31/2008

3.2 State the as of date that the latest financial examination report became available from either the state of domicile or the reporting entity. This date should be the date of the examined balance sheet and not the date the report was completed or released. 12/31/2008

3.3 State as of what date the latest financial examination report became available to other states or the public from either the state of domicile or the reporting entity. This is the release date or completion date of the examination report and not the date of the examination (balance sheet date). 09/29/2009

3.4 By what department or departments? District of Columbia Department of Insurance, Securities and Banking

3.5 Have all financial statement adjustments within the latest financial examination report been accounted for in a subsequent financial statement filed with Departments? Yes [ ] No [ ] N/A [X]

3.6 Have all of the recommendations within the latest financial examination report been complied with? Yes [X] No [ ] N/A [ ]

4.1 During the period covered by this statement, did any agent, broker, sales representative, non-affiliated sales/service organization or any combination thereof under common control (other than salaried employees of the reporting entity) receive credit or commissions for or control a substantial part (more than 20 percent of any major line of business measured on direct premiums) of:

4.11 sales of new business? Yes [ ] No [X]

4.12 renewals? Yes [ ] No [X]

4.2 During the period covered by this statement, did any sales/service organization owned in whole or in part by the reporting entity or an affiliate, receive credit or commissions for or control a substantial part (more than 20 percent of any major line of business measured on direct premiums) of:

4.21 sales of new business? Yes [ ] No [X]

4.22 renewals? Yes [ ] No [X]

5.1 Has the reporting entity been a party to a merger or consolidation during the period covered by this statement? Yes [ ] No [X]

5.2 If yes, provide the name of the entity, NAIC company code, and state of domicile (use two letter state abbreviation) for any entity that has ceased to exist as a result of the merger or consolidation.

1 Name of Entity	2 NAIC Company Code	3 State of Domicile

6.1 Has the reporting entity had any Certificates of Authority, licenses or registrations (including corporate registration, if applicable) suspended or revoked by any governmental entity during the reporting period? Yes [ ] No [X]

6.2 If yes, give full information

7.1 Does any foreign (non-United States) person or entity directly or indirectly control 10% or more of the reporting entity? Yes [ ] No [X]

7.2 If yes,

7.21 State the percentage of foreign control

7.22 State the nationality(s) of the foreign person(s) or entity(s); or if the entity is a mutual or reciprocal, the nationality of its manager or attorney-in-fact and identify the type of entity(s) (e.g., individual, corporation, government, manager or attorney-in-fact).

1 Nationality	2 Type of Entity

GENERAL INTERROGATORIES

8.1 Is the company a subsidiary of a bank holding company regulated by the Federal Reserve Board? Yes [ ] No [X]

8.2 If response to 8.1 is yes, please identify the name of the bank holding company.

8.3 Is the company affiliated with one or more banks, thrifts or securities firms? Yes [ ] No [X]

8.4 If response to 8.3 is yes, please provide the names and locations (city and state of the main office) of any affiliates regulated by a federal financial regulatory services agency [i.e. the Federal Reserve Board (FRB), the Office of the Comptroller of the Currency (OCC), the Office of Thrift Supervision (OTS), the Federal Deposit Insurance Corporation (FDIC) and the Securities Exchange Commission (SEC)] and identify the affiliate's primary federal regulator.

1 Affiliate Name	2 Location (City, State)	3 FRB	4 OCC	5 OTS	6 FDIC	7 SEC

9. What is the name and address of the independent certified public accountant or accounting firm retained to conduct the annual audit?
ERNST & YOUNG , LLP, 621 EAST PRATT STREET, BALTIMORE, MD 21202

10. What is the name, address and affiliation (officer/employee of the reporting entity or actuary/consultant associated with an actuarial consulting firm) of the individual providing the statement of actuarial opinion/certification?
PAULA HOLT, FSA, MAAA, ASSOCIATE VICE PRESIDENT, ACTUARY, 10455 MILL RUN CIRCLE, OWINGS MILLS, MD 21117

11.1 Does the reporting entity own any securities of a real estate holding company or otherwise hold real estate indirectly? Yes [ ] No [X]

11.11 Name of real estate holding company

11.12 Number of parcels involved 0

11.13 Total book/adjusted carrying value $ 0

11.2 If yes, provide explanation

12. FOR UNITED STATES BRANCHES OF ALIEN REPORTING ENTITIES ONLY:

12.1 What changes have been made during the year in the United States manager or the United States Trustees of the reporting entity?
Not Applicable

12.2 Does this statement contain all business transacted for the reporting entity through its United States Branch on risks wherever located? Yes [ ] No [ ]

12.3 Have there been any changes made to any of the trust indentures during the year? Yes [ ] No [ ]

12.4 If answer to (12.3) is yes, has the domiciliary or entry state approved the changes? Yes [ ] No [ ] N/A [ ]

13.1 Are the senior officers (principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions) of the reporting entity subject to a code of ethics, which includes the following standards? Yes [X] No [ ]

a. Honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships;

b. Full, fair, accurate, timely and understandable disclosure in the periodic reports required to be filed by the reporting entity;

c. Compliance with applicable governmental laws, rules and regulations;

d. The prompt internal reporting of violations to an appropriate person or persons identified in the code; and

e. Accountability for adherence to the code.

13.11 If the response to 13.1 is No, please explain:

13.2 Has the code of ethics for senior managers been amended? Yes [ ] No [X]

13.21 If the response to 13.2 is Yes, provide information related to amendment(s).

13.3 Have any provisions of the code of ethics been waived for any of the specified officers? Yes [ ] No [X]

13.31 If the response to 13.3 is Yes, provide the nature of any waiver(s).

BOARD OF DIRECTORS

14. Is the purchase or sale of all investments of the reporting entity passed upon either by the board of directors or a subordinate committee thereof? Yes [X] No [ ]

15. Does the reporting entity keep a complete permanent record of the proceedings of its board of directors and all subordinate committees thereof? Yes [X] No [ ]

16. Has the reporting entity an established procedure for disclosure to its board of directors or trustees of any material interest or affiliation on the part of any of its officers, directors, trustees or responsible employees that is in conflict or is likely to conflict with the official duties of such person? Yes [X] No [ ]

GENERAL INTERROGATORIES

FINANCIAL

17. Has this statement been prepared using a basis of accounting other than Statutory Accounting Principles (e.g. Generally Accepted Accounting Principles)? Yes [ ] No [X]

18.1 Total amount loaned during the year (inclusive of Separate Accounts, exclusive of policy loans):
- 18.11 To directors or other officers $ 0
- 18.12 To stockholders not officers $ 0
- 18.13 Trustees, supreme or grand (Fraternal only) $ 0

18.2 Total amount of loans outstanding at end of year (inclusive of Separate Accounts, exclusive of policy loans):
- 18.21 To directors or other officers $ 0
- 18.22 To stockholders not officers $ 0
- 18.23 Trustees, supreme or grand (Fraternal only) $ 0

19.1 Were any assets reported in this statement subject to a contractual obligation to transfer to another party without the liability for such obligation being reported in the statement? Yes [ ] No [X]

19.2 If yes, state the amount thereof at December 31 of the current year:
- 19.21 Rented from others $ 0
- 19.22 Borrowed from others $ 0
- 19.23 Leased from others $ 0
- 19.24 Other $ 0

20.1 Does this statement include payments for assessments as described in the *Annual Statement Instructions* other than guaranty fund or guaranty association assessments? Yes [ ] No [X]

20.2 If answer is yes:
- 20.21 Amount paid as losses or risk adjustment $ 0
- 20.22 Amount paid as expenses $ 0
- 20.23 Other amounts paid $ 0

21.1 Does the reporting entity report any amounts due from parent, subsidiaries or affiliates on Page 2 of this statement? Yes [X] No [ ]

21.2 If yes, indicate any amounts receivable from parent included in the Page 2 amount: $ 0

INVESTMENT

22.1 Were all the stocks, bonds and other securities owned December 31 of current year, over which the reporting entity has exclusive control, in the actual possession of the reporting entity on said date? (other than securities lending programs addressed in 22.3) Yes [X] No [ ]

22.2 If no, give full and complete information, relating thereto

22.3 For security lending programs, provide a description of the program including value for collateral and amount of loaned securities, and whether collateral is carried on or off-balance sheet. (an alternative is to reference Note 16 where this information is also provided).

22.4 Does the company's security lending program meet the requirements for a conforming program as outlined in the Risk-Based Capital Instructions? Yes [ ] No [ ] N/A [X]

22.5 If answer to 22.4 is yes, report amount of collateral. $

22.6 If answer to 22.4 is no, report amount of collateral. $

23.1 Were any of the stocks, bonds or other assets of the reporting entity owned at December 31 of the current year not exclusively under the control of the reporting entity or has the reporting entity sold or transferred any assets subject to a put option contract that is currently in force? (Exclude securities subject to Interrogatory 19.1 and 22.3) Yes [ ] No [X]

23.2 If yes, state the amount thereof at December 31 of the current year:
- 23.21 Subject to repurchase agreements $
- 23.22 Subject to reverse repurchase agreements $
- 23.23 Subject to dollar repurchase agreements $
- 23.24 Subject to reverse dollar repurchase agreements $
- 23.25 Pledged as collateral $
- 23.26 Placed under option agreements $
- 23.27 Letter stock or securities restricted as to sale $
- 23.28 On deposit with state or other regulatory body $
- 23.29 Other $

23.3 For category (23.27) provide the following:

1 Nature of Restriction	2 Description	3 Amount

24.1 Does the reporting entity have any hedging transactions reported on Schedule DB? Yes [ ] No [X]

24.2 If yes, has a comprehensive description of the hedging program been made available to the domiciliary state? If no, attach a description with this statement. Yes [ ] No [ ] N/A [X]

25.1 Were any preferred stocks or bonds owned as of December 31 of the current year mandatorily convertible into equity, or, at the option of the issuer, convertible into equity? Yes [X] No [ ]

25.2 If yes, state the amount thereof at December 31 of the current year. $ 4,366,314

GENERAL INTERROGATORIES

26. Excluding items in Schedule E – Part 3 – Special Deposits, real estate, mortgage loans and investments held physically in the reporting entity's offices, vaults or safety deposit boxes, were all stocks, bonds and other securities, owned throughout the current year held pursuant to a custodial agreement with a qualified bank or trust company in accordance with Section 3, III Conducting Examinations, F - Custodial or Safekeeping agreements of the NAIC *Financial Condition Examiners Handbook*? Yes [X] No [ ]

26.01 For agreements that comply with the requirements of the NAIC *Financial Condition Examiners Handbook*, complete the following:

1 Name of Custodian(s)	2 Custodian's Address
SUNTRUST BANK	1445 NEW YORK AVE., WASHINGTON DC 20005

26.02 For all agreements that do not comply with the requirements of the NAIC *Financial Condition Examiners Handbook*, provide the name, location and a complete explanation:

1 Name(s)	2 Location(s)	3 Complete Explanation(s)

26.03 Have there been any changes, including name changes, in the custodian(s) identified in 26.01 during the current year? Yes [ ] No [X]

26.04 If yes, give full and complete information relating thereto:

1 Old Custodian	2 New Custodian	3 Date of Change	4 Reason

26.05 Identify all investment advisors, brokers/dealers or individuals acting on behalf of broker/dealers that have access to the investment accounts, handle securities and have authority to make investments on behalf of the reporting entity:

1 Central Registration Depository Number(s)	2 Name	3 Address
15958	VANGUARD	P.O. BOX 2900, VALLEY FORGE, PA.19482-2900
104596	DODGE AND COX	55 CALIFORNIA ST., SAN FRANCISCO, CA. 94104
107105	BLACKROCK INVESTMENT ADVISORS	1111 EAST WARRENVILLE RD., NAPERVILLE, IL. 60563 - 1493
10578	CALAMOS	1 LINCOLN ST., BOSTON, MA 02111

27.1 Does the reporting entity have any diversified mutual funds reported in Schedule D - Part 2 (diversified according to the Securities and Exchange Commission (SEC) in the Investment Company Act of 1940 [Section 5 (b) (1)])? Yes [X] No [ ]

27.2 If yes, complete the following schedule:

1 CUSIP #	2 Name of Mutual Fund	3 Book/Adjusted Carrying Value
27.2001. 922908-88-4	Vanguard Extended Market Index Fund	16,388,546
27.2002. 921909-80-0	Vanguard Institutional Develop Markets Index Fund	16,818,399
27.2003. 922040-10-0	Vanguard Institutional Index Fund	24,128,323
27.2999 TOTAL		57,335,268

27.3 For each mutual fund listed in the table above, complete the following schedule:

1 Name of Mutual Fund (from above table)	2 Name of Significant Holding of the Mutual Fund	3 Amount of Mutual Fund's Book/Adjusted Carrying Value Attributable to the Holding	4 Date of Valuation
Vanguard Extended Market Index	Visa Inc.	248,942	12/31/2009
Vanguard Extended Market index	Bunge LTD.	67,357	12/31/2009
Vanguard Extended Market Index	Crown Castle Intl.	63,095	12/31/2009
Vanguard Extended Market Index	Mosaic Co.	61,785	12/31/2009
Vanguard Extended Market Index	NRG Energy	59,982	12/31/2009
Vanguard Institutional Index	Exxon Mobil Corp.	848,834	12/31/2009
Vanguard Institutional Index	Microsoft Corp.	516,587	12/31/2009
Vanguard Institutional Index	GE Corp.	449,269	12/31/2009
Vanguard Institutional Index	JP Morgan Chase	443,479	12/31/2009
Vanguard Institutional Index	Proctor & Gamble Co.	435,275	12/31/2009

GENERAL INTERROGATORIES

1 Name of Mutual Fund (from above table)	2 Name of Significant Holding of the Mutual Fund	3 Amount of Mutual Fund's Book/Adjusted Carrying Value Attributable to the Holding	4 Date of Valuation
Vanguard Institutional Develop Fund	HSBC Holdings	334,350	12/31/2009
Vanguard Institutional Develop Fund	BP PLC	276,326	12/31/2009
Vanguard Institutional Develop Fund	Nestle SA	261,863	12/31/2009
Vanguard Institutional Develop Fund	Banco Santander SA	222,171	12/31/2009
Vanguard Institutional Develop Fund	Total SA	213,930	12/31/2009

GENERAL INTERROGATORIES

28. Provide the following information for all short-term and long-term bonds and all preferred stocks. Do not substitute amortized value or statement value for fair value.

	1 Statement (Admitted) Value	2 Fair Value	3 Excess of Statement over Fair Value (-), or Fair Value over Statement (+)
28.1 Bonds	787,523,345	788,583,673	1,060,328
28.2 Preferred stocks	4,626,208	4,584,658	(41,550)
28.3 Totals	792,149,553	793,168,331	1,018,778

28.4 Describe the sources or methods utilized in determining the fair values:

Custodian Bank

29.1 Was the rate used to calculate fair value determined by a broker or custodian for any of the securities in Schedule D? Yes [X] No [ ]

29.2 If yes, does the reporting entity have a copy of the broker's or custodian's pricing policy (hard copy or electronic copy) for all brokers or custodians used as a pricing source? Yes [X] No [ ]

29.3 If no, describe the reporting entity's process for determining a reliable pricing source for purposes of disclosure of fair value for Schedule D:

30.1 Have all the filing requirements of the *Purposes and Procedures Manual* of the NAIC Securities Valuation Office been followed? Yes [X] No [ ]

30.2 If no, list exceptions:

OTHER

31.1 Amount of payments to trade associations, service organizations and statistical or Rating Bureaus, if any? $ 1,552,112

31.2 List the name of the organization and the amount paid if any such payment represented 25% or more of the total payments to trade associations, service organizations and statistical or rating bureaus during the period covered by this statement.

1 Name	2 Amount Paid
BlueCross BlueShield Association	$ 1,020,375

32.1 Amount of payments for legal expenses, if any? $ 3,352,445

32.2 List the name of the firm and the amount paid if any such payment represented 25% or more of the total payments for legal expenses during the period covered by this statement.

1 Name	2 Amount Paid
Hogan and Hartson, LLP	$ 2,389,256

33.1 Amount of payments for expenditures in connection with matters before legislative bodies, officers or departments of government, if any? $ 527,252

33.2 List the name of the firm and the amount paid if any such payment represented 25% or more of the total payment expenditures in connection with matters before legislative bodies, officers or departments of government during the period covered by this statement.

1 Name	2 Amount Paid
Sonnenschein, Nath & Rosen	$ 200,020

GENERAL INTERROGATORIES

PART 2 - HEALTH INTERROGATORIES

1.1 Does the reporting entity have any direct Medicare Supplement Insurance in force? Yes [X] No [ ]

1.2 If yes, indicate premium earned on U. S. business only $ 14,935,240

1.3 What portion of Item (1.2) is not reported on the Medicare Supplement Insurance Experience Exhibit? $

1.31 Reason for excluding

1.4 Indicate amount of earned premium attributable to Canadian and/or Other Alien not included in Item (1.2) above. $

1.5 Indicate total incurred claims on all Medicare Supplement Insurance. $ 11,198,968

1.6 Individual policies:

Most current three years:

1.61 Total premium earned $ 2,201,532

1.62 Total incurred claims $ 2,365,712

1.63 Number of covered lives 1,046

All years prior to most current three years:

1.64 Total premium earned $ 12,733,708

1.65 Total incurred claims $ 8,833,256

1.66 Number of covered lives 4,500

1.7 Group policies:

Most current three years:

1.71 Total premium earned $ 0

1.72 Total incurred claims $ 0

1.73 Number of covered lives 0

All years prior to most current three years:

1.74 Total premium earned $ 0

1.75 Total incurred claims $ 0

1.76 Number of covered lives 0

2. Health Test:

		1 Current Year	2 Prior Year
2.1	Premium Numerator	$ 2,905,136,717	$ 2,793,883,284
2.2	Premium Denominator	$ 2,927,358,276	$ 2,815,214,149
2.3	Premium Ratio (2.1/2.2)	0.992	0.992
2.4	Reserve Numerator	$ 759,176,627	$ 727,271,477
2.5	Reserve Denominator	$ 759,176,627	$ 727,271,477
2.6	Reserve Ratio (2.4/2.5)	1.000	1.000

3.1 Has the reporting entity received any endowment or gift from contracting hospitals, physicians, dentists, or others that is agreed will be returned when, and if the earnings of the reporting entity permits? Yes [ ] No [X]

3.2 If yes, give particulars:

4.1 Have copies of all agreements stating the period and nature of hospitals', physicians', and dentists' care offered to subscribers and dependents been filed with the appropriate regulatory agency? Yes [X] No [ ]

4.2 If not previously filed, furnish herewith a copy(ies) of such agreement(s). Do these agreements include additional benefits offered? Yes [ ] No [X]

5.1 Does the reporting entity have stop-loss reinsurance? Yes [ ] No [X]

5.2 If no, explain:

5.3 Maximum retained risk (see instructions)

5.31 Comprehensive Medical $ 0

5.32 Medical Only $ 0

5.33 Medicare Supplement $ 0

5.34 Dental and Vision $ 0

5.35 Other Limited Benefit Plan $ 0

5.36 Other $ 0

6. Describe arrangement which the reporting entity may have to protect subscribers and their dependents against the risk of insolvency including hold harmless provisions, conversion privileges with other carriers, agreements with providers to continue rendering services, and any other agreements:

Intercompany Support Agreement from Carefirst of Maryland, Inc and Group Hospitalization and Medical Services, Inc.

7.1 Does the reporting entity set up its claim liability for provider services on a service data base? Yes [X] No [ ]

7.2 If no, give details:

8. Provide the following Information regarding participating providers:

8.1 Number of providers at start of reporting year 34,682

8.2 Number of providers at end of reporting year 36,836

9.1 Does the reporting entity have business subject to premium rate guarantees? Yes [X] No [ ]

9.2 If yes, direct premium earned:

9.21 Business with rate guarantees between 15-36 months 0

9.22 Business with rate guarantees over 36 months 0

GENERAL INTERROGATORIES

PART 2 - HEALTH INTERROGATORIES

10.1 Does the reporting entity have Incentive Pool, Withhold or Bonus Arrangements in its provider contract? Yes [ ] No [X]

10.2 If yes:

10.21 Maximum amount payable bonuses $

10.22 Amount actually paid for year bonuses $

10.23 Maximum amount payable withholds $

10.24 Amount actually paid for year withholds $

11.1 Is the reporting entity organized as:

11.12 A Medical Group/Staff Model, Yes [ ] No [X]

11.13 An Individual Practice Association (IPA), or, Yes [ ] No [X]

11.14 A Mixed Model (combination of above) ? Yes [ ] No [X]

11.2 Is the reporting entity subject to Minimum Net Worth Requirements? Yes [X] No [ ]

11.3 If yes, show the name of the state requiring such net worth. District of Columbia

11.4 If yes, show the amount required. $ 101,088,276

11.5 Is this amount included as part of a contingency reserve in stockholders equity? Yes [ ] No [X]

11.6 If the amount is calculated, show the calculation.

See footnote 11.6 below

12.1 List service areas in which reporting entity is licensed to operate:

1 Name of Service Area
District of Columbia
State of Maryland
Virginia: the cities of Alexandria and Fairfax; the town of Vienna; Arlington County; the areas of Fairfax and Prince William Counties In Virginia lying East of Route 123.

13.1 Do you act as a custodian for health savings accounts? Yes [ ] No [X]

13.2 If yes, please provide the amount of custodial funds held as of the reporting date. $

13.3 Do you act as an administrator for health savings accounts? Yes [ ] No [X]

13.4 If yes, please provide the balance of the funds administered as of the reporting date. $

11.6 Minimum Net-Worth Requirements

The company is licensed to conduct business in the states of Virginia (Northern Virginia), Maryland and the District of Columbia. The minimum net worth for each of these juridisctions is as follows:

District of Columbia: calculated as 8% of prior year's risk premium

2,815,214,149	Prior Year's Premiums Earned
1,551,610,700	Less: FEP Premiums Earned
1,263,603,449	Prior Year's Risk Premiums
8%	Applicable Rate for the District of Columbia
101,088,276	Minimum Statutory Reserve Requirement

Maryland: $101,088,276 Minimum Statutory Reserve Requirement: calculated as 8% of prior year's risk premium

Virginia: $169,295,074 calculated as 45 days of anticipated operating expenses and incurred claims expenses generated from subscription contracts.

	Incurred Claims	Operating Expenses
Total	$2,576,445,704	$315,554,724
Less:FEP	1,450,425,693	68,403,579
Incurred	1,126,020,011	247,151,145
Divided by	365 days	365 days
Times	45 days	45 days

$138,824,385 (claims) plus $30,470,689 (O/E) = $169,295,074 total

FIVE - YEAR HISTORICAL DATA

	1 2009	2 2008	3 2007	4 2006	5 2005
Balance Sheet (Pages 2 and 3)					
1. Total admitted assets (Page 2, Line 26)	1,887,553,960	1,772,935,044	1,699,544,305	1,690,628,372	1,528,767,661
2. Total liabilities (Page 3, Line 22)	1,126,095,545	1,086,155,336	945,985,383	1,027,621,966	967,800,516
3. Statutory surplus	101,088,276	110,888,548	93,244,845	80,588,629	69,641,210
4. Total capital and surplus (Page 3, Line 31)	761,458,437	686,779,718	753,558,921	663,006,406	560,967,145
Income Statement (Page 4)					
5. Total revenues (Line 8)	2,890,867,898	2,757,511,005	2,828,482,064	2,457,593,879	2,257,444,351
6. Total medical and hospital expenses (Line 18)	2,576,445,704	2,478,528,630	2,507,343,711	2,177,416,445	2,015,011,301
7. Claims adjustment expenses (Line 20)	97,283,480	85,485,704	82,496,274	73,978,438	68,696,090
8. Total administrative expenses (Line 21)	218,271,245	183,980,707	197,711,266	157,162,197	138,372,112
9. Net underwriting gain (loss) (Line 24)	(1,132,531)	9,515,964	40,930,813	49,036,799	35,364,848
10. Net investment gain (loss) (Line 27)	44,452,897	24,318,770	42,124,827	34,165,096	31,127,098
11. Total other income (Lines 28 plus 29)	496,606	(3,237)	550,806	201,917	2,026,458
12. Net income (loss) (Line 32)	44,801,453	26,260,168	68,423,901	64,622,913	54,397,489
Cash Flow (Page 6)					
13. Net cash from operations (Line 11)	31,131,605	21,617,038	(20,974,725)	115,522,247	73,421,738
Risk-Based Capital Analysis					
14. Total adjusted capital	761,458,437	686,779,718	753,558,921	663,006,406	560,967,145
15. Authorized control level risk-based capital	84,463,139	81,253,875	82,303,273	69,443,956	62,787,823
Enrollment (Exhibit 1)					
16. Total members at end of period (Column 5, Line 7)	861,753	928,875	846,805	810,150	756,919
17. Total member months (Column 6, Line 7)	10,297,022	10,975,857	9,972,510	9,399,669	8,876,205
Operating Percentage (Page 4)					
(Item divided by Page 4, sum of Lines 2, 3 and 5) x 100.0					
18. Premiums earned plus risk revenue (Line 2 plus Lines 3 and 5)	100.0	100.0	100.0	100.0	100.0
19. Total hospital and medical plus other non-health (Lines 18 plus 19)	89.5	90.3	89.0	88.6	89.3
20. Cost containment expenses	0.6	0.5	0.6	0.6	0.6
21. Other claims adjustment expenses	2.7	2.5	2.2	2.3	2.4
22. Total underwriting deductions (Line 23)	100.5	100.1	99.0	98.0	98.4
23. Total underwriting gain (loss) (Line 24)	0.0	0.3	1.4	1.9	1.5
Unpaid Claims Analysis					
(U&I Exhibit, Part 2B)					
24. Total claims incurred for prior years (Line 13, Col. 5)	244,125,662	249,272,344	238,284,957	205,342,625	198,890,746
25. Estimated liability of unpaid claims – [prior year (Line 13, Col. 6)]	271,596,789	298,340,241	265,360,719	250,652,812	230,548,146
Investments In Parent, Subsidiaries and Affiliates					
26. Affiliated bonds (Sch. D Summary, Line 12, Col. 1)	0	0	0	0	0
27. Affiliated preferred stocks (Sch. D Summary, Line 18, Col. 1)	0	0	0	0	0
28. Affiliated common stocks (Sch. D Summary, Line 24 Col. 1)	205,252,996	179,364,063	174,236,603	140,973,988	114,524,084
29. Affiliated short-term investments (subtotal included in Sch. DA Verification, Col. 5, Line 10)	0	0	0	0	0
30. Affiliated mortgage loans on real estate		0	0	0	0
31. All other affiliated		0	0	0	0
32. Total of above Lines 26 to 31	205,252,996	179,364,063	174,236,603	140,973,988	114,524,084

NOTE: If a party to a merger, have the two most recent years of this exhibit been restated due to a merger in compliance with the disclosure requirements of SSAP No. 3, Accounting Changes and Correction of Errors? Yes [ ] No [ ]

If no, please explain:

SCHEDULE T - PREMIUMS AND OTHER CONSIDERATIONS

Allocated by States and Territories

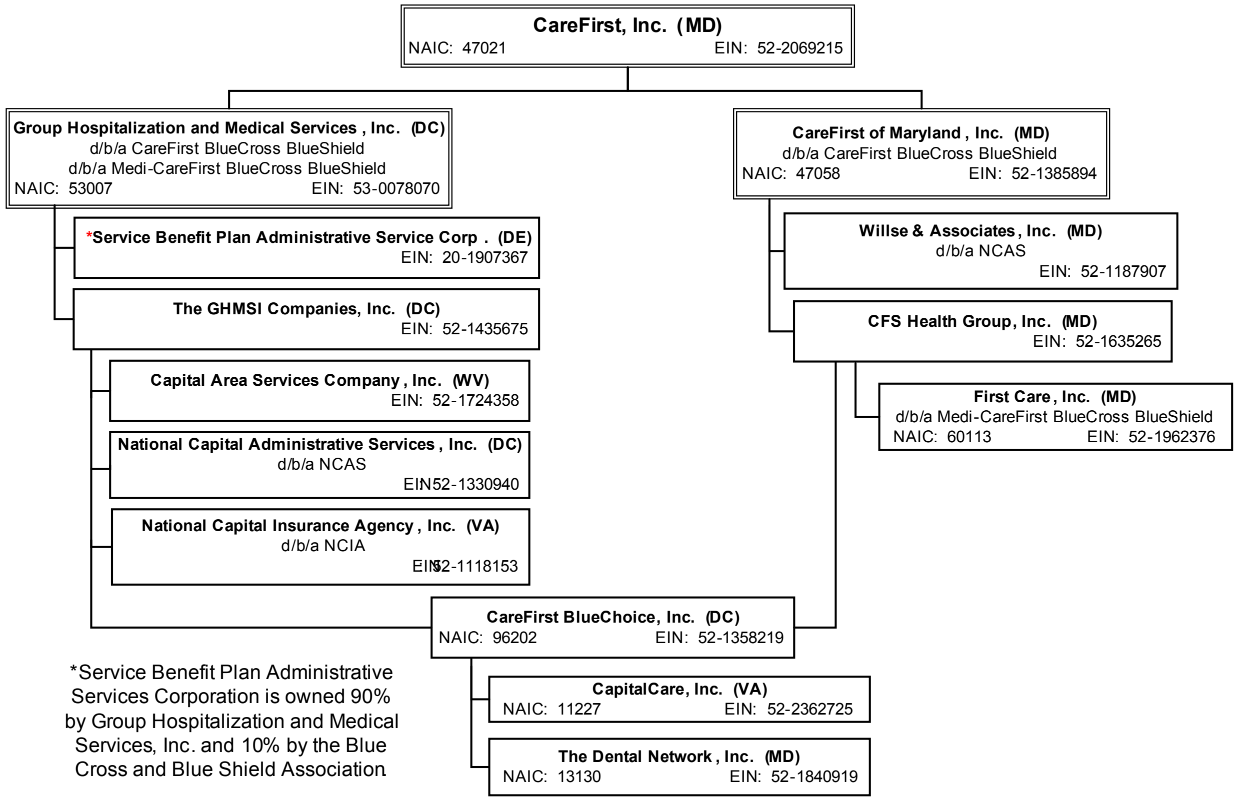
State, Etc.	1 Active Status	2 Accident & Health Premiums	3 Medicare Title XVIII	4 Medicaid Title XIX	5 Federal Employees Health Benefit Program Premiums	6 Life & Annuity Premiums & Other Considerations	7 Property/ Casualty Premiums	8 Total Columns 2 Through 7	9 Deposit-Type Contracts
		Direct Business Only							
1. Alabama AL	N							0	0
2. Alaska AK	N							0	0
3. Arizona AZ	N							0	0
4. Arkansas AR	N							0	0
5. California CA	N							0	0
6. Colorado CO	N							0	0
7. Connecticut CT	N							0	0
8. Delaware DE	N							0	0
9. District of Columbia DC	L	454,481,963			1,568,732,026			2,023,213,989	0
10. Florida FL	N							0	0
11. Georgia GA	N							0	0
12. Hawaii HI	N							0	0
13. Idaho ID	N							0	0
14. Illinois IL	N							0	0
15. Indiana IN	N							0	0
16. Iowa IA	N							0	0
17. Kansas KS	N							0	0
18. Kentucky KY	N							0	0
19. Louisiana LA	N							0	0
20. Maine ME	N							0	0
21. Maryland MD	L	760,440,713	882,849					761,323,562	0
22. Massachusetts MA	N							0	0
23. Michigan MI	N							0	0
24. Minnesota MN	N							0	0
25. Mississippi MS	N							0	0
26. Missouri MO	N							0	0
27. Montana MT	N							0	0
28. Nebraska NE	N							0	0
29. Nevada NV	N							0	0
30. New Hampshire NH	N							0	0
31. New Jersey NJ	N							0	0
32. New Mexico NM	N							0	0
33. New York NY	N							0	0
34. North Carolina NC	N							0	0
35. North Dakota ND	N							0	0
36. Ohio OH	N							0	0
37. Oklahoma OK	N							0	0
38. Oregon OR	N							0	0
39. Pennsylvania PA	N							0	0
40. Rhode Island RI	N							0	0
41. South Carolina SC	N							0	0
42. South Dakota SD	N							0	0
43. Tennessee TN	N							0	0
44. Texas TX	N							0	0
45. Utah UT	N							0	0
46. Vermont VT	N							0	0
47. Virginia VA	L	481,059,079						481,059,079	0
48. Washington WA	N							0	0
49. West Virginia WV	N							0	0
50. Wisconsin WI	N							0	0
51. Wyoming WY	N							0	0
52. American Samoa AS	N							0	0
53. Guam GU	N							0	0
54. Puerto Rico PR	N							0	0
55. U.S. Virgin Islands VI	N							0	0
56. Northern Mariana Islands MP	N							0	0
57. Canada CN	N							0	0
58. Aggregate Other Alien OT	XXX	0	0	0	0	0	0	0	0
59. Subtotal	XXX	1,695,981,755	882,849	0	1,568,732,026	0	0	3,265,596,630	0
60. Reporting entity contributions for Employee Benefit Plans	XXX							0	
61. Total (Direct Business)	(a) 3	1,695,981,755	882,849	0	1,568,732,026	0	0	3,265,596,630	0
DETAILS OF WRITE-INS									
5801.	XXX							0	
5802.	XXX							0	
5803.	XXX							0	
5898. Summary of remaining write-ins for Line 58 from overflow page	XXX	0	0	0	0	0	0	0	
5899. Totals (Lines 5801 through 5803 plus 5898) (Line 58 above)	XXX	0	0	0	0	0	0	0	

Explanation of basis of allocation by states, premiums by state, etc.: Enrollment and billing systems capture and report premiums by group situs.

(a) Insert the number of L responses except for Canada and other Alien.

SCHEDULE Y - INFORMATION CONCERNING ACTIVITIES OF INSURER MEMBERS OF A HOLDING COMPANY GROUP

PART 1 - ORGANIZATIONAL CHART



*Service Benefit Plan Administrative Services Corporation is owned 90% by Group Hospitalization and Medical Services, Inc. and 10% by the Blue Cross and Blue Shield Association.

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